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PICTURES IN POLITICAL ECONOMY

516.549.F.H.4

## PREFACE

SINCE this book was written it has become of the utmost importance for people to know the rudimentary outlines of Political Economy, as there is looming in front an electoral struggle on the Fiscal Policy of England, and people will be inundated with contradictory statements and inconsistent arguments, and only by knowing the subject will they be able to separate truth from falsehood and sound from unsound deductions.

This book was not written having special reference to the subject of Protection; but I have added a supplement dealing with that in particular.

If people want to form opinions on the subject-matter of Protection, they must have a general knowledge of Political Economy. By a general knowledge I do not mean the knowledge picked up by reading newspapers. I

mean the knowledge acquired by studying the subject and reading the standard books on the subject.

The opinions of a man who has read a few speeches by leading politicians on the subject-matter of Protection are as worthless as would be his opinions in the realms of pathology after reading a few speeches by physicians at a medical congress.

Nothing is more extraordinary than the ignorance which prevails amongst people, and amongst educated people, on the subject of Political Economy. In fact, I believe that, beyond having a vague idea that it is something very dry, many people do not know what the subject embraces. Any way, whether they know what the subject embraces or not, many people float through life expressing opinions in a more or less dogmatic way, without knowing that they are talking perfect nonsense.

How often do you come across a man who says that the expenditure of rich people circulates money, and is good for trade, and, having said that, really and honestly thinks that he has made an intelligent statement!

I knew a little boy about four years old whose father had explained to him about coal-mines. When asked a little later by his father where we get coal from, he said at once, 'Out of the cellar'; and when his father suggested, 'Oh, but when the cellar is empty?' he said at once, 'Out of the cart.'

Likewise I knew a little girl of similar age whose father had explained to her about getting the water from rivers, reservoirs, and main pipe under the road, and pipes into the houses. When asked a day or two after where we get the water from, she replied, 'Out of the tap'; whereupon her father said, 'Oh, but if I were to buy a tap, and fasten it on the wall, and turn it on, do you think water would come out?' 'No,' said the child. 'You are silly; I mean a real tap.'

Now, when I hear some people talk on matters of trade, taxation, money, etc., they often remind me of these little children. They make statements with which they are quite satisfied, but which really show a complete and unconscious ignorance of the whole matter.

I once had an argument with a gentleman



who said he had stood for some place for Parliament. He was suffering from the impression that England was simply going to perdition fast, because, forsooth, she imports more than she exports, and when I suggested that perhaps she earned the difference by her carrying trade, it came on him as a thunderbolt, and he seemed to think it was an original idea peculiar to myself. Little did he imagine that the way, if not the only way, to make England's imports and exports equal one another would be to destroy her carrying trade.

Why is it that so many people know so little Political Economy? Is it because the subject is not easily read up without submitting to a terrible task?

Now, this book is an effort to explain the outlines, ideas, and laws on the subject, as accepted by students of the subject, in a simple manner. There is a long line of literature on this science, as there is in the case of every other science. There are books of a profound character and books of a more popular character.

This book is an addition to the latter class. My object is not to say anything which is new

to the devotee of the science, but to explain outlines and main principles, which are generally recognised by all devotees of the science, in such a manner, and so explicitly, that anyone new to the subject can read and understand without poring over it, or making a severe demand on his powers of application. The justification for this book lies in the hope that it attains simplicity and explicitness.

Further, my object is to draw and fix in the mind of the reader a series of pictures which, when realized, will make the subject clear, and not to worry him with a mass of highly technical definitions, to grasp the meaning of which is a serious effort.

A. W. CLAREMONT.

81, CAMDEN ROAD,  
LONDON.

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*ERRATA*

Page 140, line 3. *For* £15,000,000 *read* £35,000,000

„ 147, „ 25. *For* "without" *read* "with"

„ 156, „ 5. *Read* "make Twice as much s as it wants"

## CHAPTER I

### ORIGINS

WE might almost commence the subject with the venerable words 'In the beginning.'

The first idea to grasp is how things have grown from the simple state when each man, acting more or less like an animal of prey, sought for himself, and himself alone, what he wanted, down to the complicated state of society of to-day, when a given man will (for example) be engaged in a factory, in a small operation, making, perhaps, a part of a screw, in return for which work he receives a coin, which he promptly parts with in exchange for the food and other things which he wants.

To commence with, there is raw material in the form of Nature—land, rivers, plants, and all else which the world is made of; and apart from that is man. Man is, in fact, part of the world. But by his industry he can, and such is his nature that he does, manipulate, mould, and adapt, his surroundings, and change himself

## 2 Pictures in Political Economy

from a mere animal to the civilized being of to-day.

To effect the change from man's primitive condition to the state of civilization and wealth of to-day, two great factors are at work :

1. Mutual help, which in the advanced state of to-day is more generally referred to as division of labour.

2. Saving, resulting in the huge and enormous masses and volumes of property or capital of to-day.

MUTUAL HELP.—A very early step is the recognition of the value of mutual help—when two men, perhaps brothers, realize that together they can do more good than each separately ; that combined they can extract more from Nature, and that hence each will be richer by combined effort. Two men in a primitive boat might make a catch under circumstances where, each in a separate boat, it might be impossible to catch at all. One would be attending to the boat while the other was attending to catching fish. In such simple operations we have example of division of labour, where each man does a separate thing, and afterwards they share the result, the result being greater produce than if each had acted alone. The commencement of division of labour started in very simple acts,

## Origins

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but to-day the divisions and subdivisions of labour are carried to an enormous extent.

A man to-day in a civilized life can scarcely realize what his condition would be by himself. Here in a town, he can get and consume a variety of goods and commodities which he could not possibly have made or procured for himself, and in the manufacture of which, except in respect of perhaps one article, he has had nothing to do.

The division of labour is one of the greatest forces at work for the enrichment of man, and the results of it are colossal.

SAVING.—A potent factor in the enrichment of man is the process of saving.

A man who, in a savage state, can only secure daily enough to eat remains for ever poor. Similarly, such a man, who can secure in one hour enough to eat for the day, and who works for an hour and idles the rest of the day, remains for ever poor.

But the man who in one hour can secure enough to eat for the day, and who works for eight hours, has in one day saved seven days' maintenance. He is safe for seven days. During that time, living on those savings, he can build a house and add to his comfort. But more than that, and what is of far more importance, he can give his attention towards making tools

#### 4 Pictures in Political Economy

by which he can get his sustenance quicker still. It may be a weapon to slay his food, or a trap to catch an animal while he himself is busy elsewhere, or a storehouse to keep and preserve his food.

He has time, further, to commence to grow his food and to breed his food.

Such a man is by-and-by quite free from any trouble as to food. He is now making clothing, a house, etc.

Slowly and surely he is getting richer—living an easier life.

#### PRIVATE PROPERTY.

Side by side with the progress of man from the primitive condition comes the recognition of private property. In very early times a man would naturally claim as his, and fight for its possession if his right were disputed, what he had won from Nature, whether it be the carcase of a dead animal which he had slain, or the living body of one he had captured. At a very early stage in the upward growth of man the right to private property would be recognised. The right to hand it over from one to another would follow. At an early time, when in a thinly-populated district there was enough land for each man to circumscribe and cultivate his

#### Origins

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own portion, the right of private property in land would come into existence. It would be recognised that the man who had cleared the ground and made it suitable for his purposes would be entitled to retain the use of it.

#### EMPLOYMENT.

Side by side also comes the relationship of master and servant. A man who has saved and who has made tools side by side with another who has made no savings produces such a position that it is to the interest of both men that they join forces, and the nature of the combination will be that of master and servant.

The joining of forces will not take place unless it is to the interest of both. The man who has saved and can get his living and comforts easily will ask the other to give up his primitive pursuits. One man can now feed them both, and more.

The man who has saved can afford to give the man to be employed more food and comforts, and more ease than the latter otherwise would have obtained, and yet get an advantage from the employment for himself, because the workman will work with the aid of tools, and the result of his labour will be greater. The result of his labour can be so divided that the workman

## 6 Pictures in Political Economy

can have more than by himself he could get, while the man who has saved and supplied the tools gets part of the result which but for the arrangement he would not have had at all.

The wages will be so much food, and such other comforts as will induce the one to work for the other.

## CHAPTER II

### COMMUNITY

IN the advanced communities of to-day practically the whole community consists of two classes—I said 'practically' because I do not mean entirely.

The two classes are: (1) Those who own the tools, and who are generally referred to as the 'capitalists'; and (2) those who are working for the capitalists, generally referred to as 'labour.'

For the purpose of realizing the state of affairs, let us assume for the moment that there is only one capitalist, and that all the others have entered his employ, and that he has set one lot to do one kind of work, another lot to do another kind of work, and so on. Let us recognise further that by this process the workmen, using the capitalist's tools, are able to produce a great deal more than they otherwise could. We can then get an idea or a picture of an industrial community. We shall

## 8 Pictures in Political Economy

thus have a picture of a capitalist employing some of the members to make the food and necessities for all, some to make further comforts for all up to the standard which the workmen are to have, and others to wait on or to make additional luxuries for the capitalist.

For convenience in illustration, I have throughout divided commodities made (or, speaking more generally, the benefits derived from industry, be they commodities or mere conveniences or advantages) into three classes, the first consisting of food and necessities, comprising the bare necessities of existence to the ordinary mass of the community; the second, comforts, comprising the commodities and advantages (over and above the food and necessities) which the great bulk of the community attain or secure; and the third, luxuries, comprising all the extra commodities, advantages, and benefits, secured by the rich and well-to-do classes.

This classification is not a scientific classification. There is no dividing-line which can be specified, but the classification is to assist in illustrating the various forces and phenomena dealt with.

The reader should keep ever in mind the

## Community

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picture—a capitalist, owner of all the tools, employing the workmen to work on different things, and afterwards a general exchange taking place.

The workpeople are all better off, as each of them gets more of necessities and comforts in the combination than if each were alone. Such necessities and comforts are being made by part of the workmen, and the remainder of the workmen are serving and making luxuries for the capitalist.

To make it clearer, let us take an imaginary community. Now, for this purpose we need not deal in millions, as a modern community, for the illustration will be the same in principle.

Imagine a community of 100 people, and that one is the capitalist, owning all the tools (using the word 'tools' in the widest sense, to include all factories, machines, and everything used in producing goods), and 99 are workmen.

Suppose that of these 40 are engaged (using the capitalist's tools) in making food and necessities for the whole 100; that 30 are engaged (using the capitalist's tools) in making further comforts for the whole 100; and that 29 are engaged, some in waiting on the capitalist like servants, and others in making (using the capitalist's tools) luxuries for the capitalist.



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That is roughly a true *picture* of an industrial community, and it *should never be lost sight of*.

The position will vary from time to time. There may be fewer men making food and necessities and comforts for the whole 100, and more making luxuries for the capitalist.

Again, in small details there will be modifications here and modifications there.

But, viewing a community generally, the picture is a true picture: all the workpeople are at work, some making food and necessities for all, some making comforts for all, and some waiting on and making luxuries for the capitalist.

The next consideration is what kind of articles will be made. Will the workpeople be making fireworks, or furniture, or clothes, or houses?

It will be seen that in this picture each man is getting a share of commodities resulting from the efforts of the community.

The contract and arrangement in the community is such that each man is entitled to say what he will have for his share, provided he cannot get more than his agreed share.

A man entitled to a share of the comforts is

## Community

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entitled to say, 'I want furniture' or 'I want clothes.'

Some may ask that labour shall be applied for one purpose, and some for another.

The demand always directs what shall be supplied—that is to say, the nature of the things to be supplied as distinct from the quantity.

The wishes of the community can require more of one thing and less of another, though obviously the mere wish of the community cannot increase the quantity of output.

The men who are making for all will turn out food, houses, clothing, and furniture, and all sorts of other things, in the proportions in which the community want those articles.

## CHAPTER III

### INCREASING OF CAPITALISTS

As time goes on, in a rising industrial community there is a constant increase of capitalists, owing to some of the workpeople having saved, or made some invention, or by some other means turned themselves into capitalists.

Let us consider how that can happen.

Suppose some of the workmen were to say, 'We do not want so much comfort; we will do without carpets and other things' (which would have constituted part of their share); 'we want some tools made instead.' Some of the workpeople making carpets or the other things dispensed with will go off that, and apply themselves to tool-making. The particular workmen who demanded tools will become capitalists, and may get themselves in the same position as the capitalist in our picture of the community of 100.

Consider, again, for a moment that class of men, 30 in the picture drawn above, who were

### Increasing of Capitalists 13

making comforts for all. Suppose that one of those men discovered some means (a tool or other means) by which 20 men could produce the same results as the 30.

Having made his tool, or, if it is an invention, having determined how to apply it, he would ask 20 of these men engaged in making comforts to come into his employ and use his tools or invention.

This man, now with 20 workmen, can produce all the comforts for the whole 100 community.

Bear in mind the picture drawn above, and let us follow the change which is going to take place. This man will be able to give his 20 workmen the same share as before, which they will be able to exchange with the rest of the community. He will then have left on his hands one-third of the comforts of the whole community. He can again divide this between himself and the other 9 men, so that each gets the same share as before, which he and the other 9 men can exchange with all the rest of the community. So far everything is exactly as it was before, except that he and the other 9 men are doing no work.

Now this man, this new capitalist, can henceforth for ever do no work, and yet live as before; and no one else will be poorer.

## 14 Pictures in Political Economy

But he can do a great deal more than that; he can say to the other 9 men: 'Look here: if I give you some of these goods to exchange, you must do some work. You must be my coachmen or gardeners, or you must make luxuries for me.'

So far this man, this new capitalist, has become much better off, and no one else is the poorer.

If, instead of the 9 men all working to wait on and make luxuries for this new capitalist, 5 of them make more comforts for all the 100, and only 4 of them wait on and make luxuries for the capitalist, the whole community is better off.

Add to the picture shown in Chapter II. this movement: the increase of capitalists from the working class, which is to the advantage of all *if*—but only *if*—some of the freed labour is used in making comforts for all.

This is a true picture of what happens in a free country. The forces or tendencies bringing about the result will be better explained later on.

We now see the process of subdivision, not only amongst workmen, but also amongst

## Increasing of Capitalists 15

capitalists. From time to time fresh capitalists are taking over a part of the manufacture.

So in course of time we find all trades being worked separately. At the same time, all are part of one whole, and ultimately all exchange and divide the different products.

Of course, it makes no difference whether the new capitalist, who has effected this change, was one of the class making comforts, or one of any other class.

The same result would be obtained if he were one of those making the food and necessities, or one of those making luxuries. In either case some of the freed labour would go to supply him with luxuries, and the rest to supply more comforts for all.

By way of grasping the reality, trace the change in the picture given in Chapter II.

We had a community of 100 people, of whom one was a capitalist owning all the factories, machines, and tools, and 99 were workmen. Of these, 40 were making food and necessities for the whole 100, 30 were making comforts up to the standard of workmen for the whole 100, and the other 29 were either servants, coachmen, or gardeners, etc., or were

## 16 Pictures in Political Economy

engaged in making luxuries for the benefit of the capitalist.

Now, suppose a man in the food and necessities lot, by making a tool or otherwise, discovered a means of saving 10 men's labour, and that thenceforth he retired and did no work; that 5 of the men whose labour had been saved made comforts for all, and 4 went into the luxury-making class. And suppose a man in the comfort-making class discovered a means of saving 10 men's labour, and thereupon he retired and did no work, and 5 of the men whose labour he had saved went into comfort-making, and 4 went into luxury-making. And imagine that a man in the luxury-making class by some means or other succeeded in saving the labour of 10 men, and that he thereupon retired, and 5 men whose labour had been saved went into the comfort-making class, and 4 into the luxury-making class.

The result will be a community of 100 men, of whom 4 are capitalists; 30 (using the capitalist's tools) are making food for all the 100; 35 (that is to say, the original 30—10 saved + 5 + 5 + 5 additions) are employed in making comforts; and 31 (that is to say, the original 29—10 saved + 4 + 4 + 4 additions) are employed in waiting on or making luxuries for the capitalists.

## Increasing of Capitalists 17

Now let us see what has happened.

1. There is a diminution of workmen required to produce food and necessities.

2. There is an increase in the number of men employed in making comforts, but the increase in the quantity of comforts made is much larger than the increase in the men engaged in making them, because, owing to the invention, or tool, or whatever it was, the labour of 20 men can produce as much as 30 before, so that the output has increased 75 per cent. This would result in a better supply of things, perhaps clothes, where better supply was needed, and also a supply of new commodities not otherwise supplied at all.

3. There has been an increase in the number of men engaged in waiting on and making luxuries for the capitalists, from 29 to 31, but a much greater increase in their output; for now 19 men do what 29 used to do, so there is an increase of over 50 per cent. This, again, would result in a better supply of some things and a supply of new things not before supplied at all.

Of course, these figures are purely imaginary, and the examples given show tremendous and sudden changes. The reader, however, will realize that in practice the advantages and changes are little by little. The

## 18 Pictures in Political Economy

movements of the community are like a growing plant.

Nevertheless, the position is a true picture of the change which is constantly going on. Every advance in industry is in reality a producing of the output of industry with less labour, and the employing of that labour to make or secure new commodities and advantages for the community.

## CHAPTER IV

### THE FACTORS OF EXCHANGE

APART from the mere manufacture of commodities, the subdivision of labour and the subsequent exchanging must be accompanied by the application of some labour in effecting the exchange.

There must be carriers. It is useless for one man or the inhabitants of one town to be making beds or any other article for the whole community without some means of carrying them throughout the community. Hence some labour must be applied in carrying.

There must be some whose time, attention, and efforts are applied towards the regular distribution. It would be impossible to develop if the manufacturer of a given article sent it about haphazard. There might be a great supply at one place, and none at another. Hence merchants are required whose business it is to be in touch with the sources of supply, or the manufacturer, on the one hand, and the

## 20 Pictures in Political Economy

demand on the other hand, and who regulate the supply to the various demands throughout the country.

There must be a quantity of warehouses, stores, and shops where quantities of goods are collected and passed on, and ultimately become available for the members of the community to get at.

There are wanted, besides, a multitude of other middlemen, brokers, and agents of one sort and another.

The freeing of labour by means of subdivision of labour, or saving, or what not, must yield enough to make up the army of middlemen employed in all these departments, and, obviously, if the change is to enrich the nation, must yield a surplus beyond that.

All the men engaged in the various departments in the distribution are as necessary as those engaged in production, and each of them gets his share of the general output of industry from the capitalist, just like a man engaged in production.

Take as an illustration, again, a community of 100. Suppose one is a capitalist and 99 are workpeople; suppose that by the process which has gradually come about 30 are making food and necessities for all, and 30 are making comforts for all, and that the labour of 39 has

## The Factors of Exchange 21

been saved; suppose that the subdivision and ultimate exchange can only be brought about if 10 of these 39 are employed as carriers and others in effecting the distribution: we have then a picture of a community of 100, of whom one is the capitalist (owning all the tools); 30 (with the aid of the capitalist's tools) are making food and necessities for all; 30 (with the aid of the capitalist's tools) are making comforts for all; 10 are engaged in carrying and otherwise distributing or exchanging; and 29 are serving or (with the aid of the capitalist's tools) making luxuries for the capitalist.

Earlier I have shown the process of new capitalists coming into existence. Here the reader should note that capitalists can grow in the distributing class, just in the same manner as any other class, by any process which effects a saving of labour: it may be by tools or by organization.

For example, suppose that builders, when they want material, have to go about to the various manufactories of building material. But some enterprising man realizes the saving if he collects a large number of materials in his stores, and can supply a builder at once with what he wants: a saving of labour would be effected, and this man can get the benefit of it.

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Why this man gets the benefit of the freed labour is because, having saved the builder a certain amount of labour, the things are worth more to the builder than if he had to buy them at the sources of manufacture ; but this will be better understood later on.

## CHAPTER V

### RATIO OF EXCHANGE

THERE must necessarily come into being in an industrial community a ratio of exchange between the various commodities. A commodity cannot be exchanged for any other commodity regardless of value.

The ratio of exchange is generally dependent on quantity and quality of labour involved in producing the articles. Given, for example, that two pairs of boots can be made with the same quantity and same quality of labour as one coat, the two pairs of boots will exchange for one coat, and so on.

An article which requires highly skilled labour in its manufacture will command in exchange more articles which involve in the manufacture less highly skilled labour.

The tendency in exchange is always for the articles to exchange with other articles in the production of which there was an equality of labour, having regard to quantity and quality.

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This ratio of exchange applies also to services rendered. If a capitalist has at his disposal the food and necessities and comforts for ten men, he can require those ten men to make things, or he can simply require their services as footmen and servants generally.

The rule, then, can be more generally stated that services or the products of labour exchange for equal services or the products of equal labour.

These tendencies pervade the whole manufacturing and distributing agencies. A carman gets a similar share in the output of industry to that of a mechanic of equal skill at work in a factory.

An article varies in value according to what labour has been bestowed on it.

Consider the history of any manufactured article—take, for example, a stone staircase.

To begin with, the stone must be got out of the ground. So much labour has to be employed on that. When at the quarry exit the ratio of exchange with other things depends on that labour. Next it has to be moved to the place where it is wanted.

When it arrives there, so much more labour has been expended on it. Its ratio of exchange has increased proportionately. It then has to

## Ratio of Exchange 25

be cut and shaped, and when that is done its ratio of exchange has increased again in proportion. It ultimately has to be put in its final position, where its ratio of exchange has increased again.

The staircase is part of the output of the nation's industry. It may be that it is a mere luxury in a rich man's house, or it may be part of the construction of a tool, such as a factory. Each set of workmen who deal with the stone get from the community the value of the services put into it.

It makes no difference that each body of men who render their services may be in the employ of one—a capitalist—who, by tools or otherwise, is causing labour under him to be more effective. The value in exchange is increased from time to time by the value of the labour effort put into the article, and also by the value of the tools or a labour-saving device adopted by any of the capitalists concerned.

The equality in value of labour will determine the ultimate exchange values if and so far as there are no disturbing elements; but there are disturbing elements—some permanent, and some temporary.



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The disturbance of the ultimate ratio of exchange, of services or goods, for equal services or goods, is more fully dealt with in the chapter on 'Supply and Demand,' and in Chapter X., dealing with monopolies.

## CHAPTER VI

### MONEY

So far I have said nothing about money. I have done so purposely, because money is the blind which prevents most people from seeing the reality. But really and truly money, in considering most economic problems, can be disregarded. The substance to look at is, first the manufacture, and secondly the distribution and division of the commodities. The student of economy should be able to look through money, and see and realize the facts and phenomena of production and distribution, like a man looking through a piece of glass, at the view beyond. The changes of goods for goods, and goods for labour, with all the constantly increasing complications resulting from the divisions and subdivisions of labour, could never be carried out and regulated if there were not some common medium of exchange. Man generally has adopted, and for good reasons, gold as the common medium of exchange.

Money, which is the same thing as saying

gold, should be looked upon as a tool, like a chisel; but it differs from a chisel because a chisel is a tool to make things, whereas money is a tool to assist in regulating the exchange of things. Money is more like an account-book kept by a shop-keeper or a banker, but it is automatic. Instead of recording that A has sold B something, B hands A a coin, and it is done with. There is less trouble about it.

Money truly is a tool. Except for the purpose of regulating exchanges it is of no use. You cannot eat it or clothe yourself with it. It is only a tool. If I, having £1, give it to a workman, I have given him a pound's worth of the goods which are being poured out of the various factories. If I give another £1 to another man, I have done the same for him. If I, instead, give the first one £1 10s., and the second 10s., I have varied the distribution. The same quantity of commodities will get used up, though perhaps of a slightly different kind. The same pieces of gold will exist, but in different hands. The distribution of the commodities has been varied.

Money, that is to say, gold, like all other metals and all other things, varies in value. The world wants a certain amount of gold for the purpose of the tool money, and for other purposes. Now, for causes well known, and

which will be explained later on, the value of a thing at a given place depends on the relation of the supply to the demand at that place. Hence a greater demand for gold in a given place would make it of more value there, or, what amounts to the same thing, a scarcity of gold in a given place would make it of more value there.

Now, gold lies over the great industrial countries like water over a surface. It does and must keep a level. It is obvious that a merchant, having gold to trade with, will take it to the place where gold is dearest, where you have to give a lot of other goods for it—*i.e.*, where it purchases a lot of other goods. A merchant who can purchase at several markets will buy in the one where his money will fetch the most. Hence money gravitates, or, rather, flies, to the market where it is dearest. The mere fact of it going there will render gold less scarce there, and hence will make it cheaper there. The result is that gold so distributes itself over the industrial world as to be of practically equal value in all markets.

In places where much gold is wanted, like the great centres of industry, London, Paris, Berlin, New York, etc., there will be a larger supply. Owing to a greater quantity of gold being wanted at those places, there will, in the first instance, be greater demand. This will cause a

flow to that place. Ultimately, having regard to the relations of *supply* to *demand*, gold, although lying in large quantities in places where large quantities are wanted, so distributes itself as to become of equal value in all markets. Gold may be likened to water of the ocean, deeper in places owing to the unevenness of the bottom, but at the top remaining level. If the level be disturbed, it will return to the level again.

If you were to take out of England, say, one half of the gold, and take it to Germany, or abroad generally (suppose, for example, England had bought and imported a lot of goods, and paid for them, so much so that one half of the gold in England had gone out), what would be the effect? The effect would be as follows: Gold in England would become dear; that is to say, you would have to give a lot of goods for it. A man with gold could get more than he could before, for the same quantity of gold. A merchant buying, say, boots in England could get twice as many as before, for the same quantity of gold. Under such circumstances a merchant in Germany dealing in boots would not be such a fool as to buy boots from a German maker. He could send to England, and buy from the English maker, in order to make more profit for himself.

Now, mark—Here is the gold flowing back into England. The foreigner is buying from England; that is to say, England is exporting, and the foreigner importing. This would go on until the same quantity of gold was back here again. In other words, to the exact extent to which England had bought goods and parted with gold, to that precise extent foreigners would, in their own interest, buy goods from England and send the gold back again.

Further, in the case supposed, that England had bought a lot of goods from abroad and parted with half its gold, all merchants with money, *English and foreign*, would be trying to buy in England instead of buying abroad. Further all merchants, English and foreign, who could find customers abroad, would cease to sell in England, because they would have to give such a lot of goods for gold in England. They would sell elsewhere.

The converse would be true in the foreign countries. They would have a larger supply of gold. Therefore gold would be cheaper there: you would not get so great a quantity of goods for it.

Hence, in the result, directly you have disturbed the level of the money by one country buying without selling, it immediately becomes the interest of every merchant to cease to sell

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to that country, to sell elsewhere, and to buy from that country.

So that sale of goods by one country involves as an ordinary consequence a purchase by that country.

Now, in the industrial world it never happens that one of the countries buys without selling until the gold there is diminished by one half. The mere fact that one country is buying, and owes money to the foreigner, is felt at once amongst bankers and merchants, and the prices in the various countries vary immediately, and before anyone has realized the fact contra orders have been given, which counteract the disturbance.

A merchant at Paris dealing in anything, say tin, knows the prices of tin in London, Madrid, Berlin, and elsewhere. The merest change in England, by exporting and importing, varying in the least degree, up or down, the value of gold in England, will cause him to place an order in London or not for tin.

Long before any serious change is effected, the variations in the value of gold would be such that the country exporting without importing would cease to export, because it is against everybody's interest to continue the exporting.

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The reader should always keep that picture in mind. Gold is lying over the industrial world in such a manner that, although, having regard to greater requirements at busy centres like London, Paris, New York, Berlin, etc., there are larger quantities at those places, its value is practically the same everywhere.

Keep in view the picture of the ocean, with deep holes in the bottom. There is more water in some places than in others, but the top keeps level, or, if disturbed, returns to level again.

Do not imagine that that is a fanciful picture, and not a true one.

The reasoning shows that it must be so.

Experience of bankers, as appearing from their returns, show that it is so.

With that picture in mind many common errors disappear.

Mr. Seddon, the Premier of New Zealand, said in a speech a year or two back that England parted with 160,000,000 sovereigns a year; and, according to him, she has been parting with that amount, or an amount not far short of it, every year for the last fifty years. It is impossible to conceive a greater economic blunder than that.

First, England never had that number of

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sovereigns. I suppose 50,000,000 is the biggest amount she ever does have.

Secondly, she could not part with it, for the reasons shown. Long before she had parted with any substantial amount all merchants would have stopped importing into England.

Thirdly, she has not, as a fact, parted with any : the bank returns show this.

#### MONEY DOES NOT MOVE.

Generally speaking, it is true to say that money does not move. It is true that in small quantities people carry it about, and hand it from one to another, but, as compared to the enormous mass of goods which are sold and bought, it may be said that the money does not pass.

A merchant in London buys some goods from another merchant, and gives him a cheque on the bank ; the receiver of the cheque perhaps banks at the same bank, and pays the cheque to his banker. The banker still holds the money ; he has not moved it. He simply makes some entries in his book to record that he no longer holds it for the first merchant, but now holds it for the second.

It is the same if the merchants bank at different banks.

Merchants and traders draw multitudes of

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cheques, and pass them from one to another. These cheques are paid into various banks. The bankers meet at their clearing-house. They find that bank A has a number of cheques against bank B for, say, in the aggregate, £50,000, and that bank B has cheques on bank A for, say, £50,500. Now, here £500 only passes, or perhaps that does not pass ; it is left standing recorded in the books, and next day the transactions result the other way about, and the £500 is cancelled. Bankers only pass small balances from time to time.

It is the same with the banks in one country against banks in another.

Merchants in England may have sold a lot of goods to merchants in France, and have received cheques, bills of exchange, etc. But merchants in France have sold goods to merchants in England, and have received cheques, bills of exchange, etc. All these are paid into banks, who meet at their clearing-house and cancel one against another.

Occasionally the Bank of England will send a small quantity of gold to Berlin, and occasionally Berlin sends a small quantity to England, but in the main gold does not pass.

## SMALL MOVEMENTS.

There are small movements of gold to regulate comparatively little transactions.

It is well to examine these little transactions, and in the main I am going to deal with workmen's wages.

During every week workmen are at work using the tools of the capitalist, and at the end of the week the things made are in the hands of the capitalist. The capitalist now starts off to distribute.

Instead of giving to each workman employed in the factory a share of what has been made, leaving him to exchange it for other goods, and then giving a share to the men who are waiting on or making luxuries for the capitalist, leaving them to exchange—instead of bringing about the distribution in that clumsy way, the capitalist gives to each workman a quantity of gold.

The workman with this goes to the various capitalists and hands the gold back again, and receives in exchange a quantity of the goods.

And this same process goes on week after week.

The mind should not be confused by the fact that the capitalist buys some of his luxuries from another capitalist.

That merely means that capitalists are ex-

changing the produce made by one another's workmen; or, in other words, that each is being waited on or having luxuries made by workmen in the immediate employ of another.

The payment of dividends by a big company, again, should not be allowed to cause any confusion. It simply means that the balance of goods which the manufacturer has after paying his labour belongs to a lot of people, and not one only. Instead of handing them a share of goods to exchange, the company hands them gold, which they pay to others in exchange for the goods they want, and the same amount is handed back to the company in exchange for the company's goods.

## CIRCULATION OF MONEY.

It is correct to speak of the circulation of money, because it truly circulates. The capitalist pays it to the workpeople and the workpeople pay it to the capitalist, and so it goes on in a never-ending circle.

The normal circulation of money may be altered or disturbed, and in result the distribution of goods may be altered or disturbed; which is the same thing as saying the direction of labour's effort may be altered or disturbed.

The people who have the control of money

can alter the distribution of goods. For example, if I am a capitalist, and have an income from my business of £10,000 a year, I can spend all or most of it on horses, and by that means people in the horse trade get the £10,000, or a great part of it, and they go to the capitalists—amongst others myself—and take out commodities, and the £10,000 returns to me.

But suppose I do not do that. Suppose I spend all or most in yachting. Now the horse world cannot get so large a share of the produce of industry, but the yacht world can get more.

The reader will observe that what I have done is to alter the distribution of the produce of industry, or to cause labour to shift from horse-rearing to yacht-building.

Again, suppose you have a nation without an Emperor or King, or any such potentate, the people will by means of the money which they have received each get out certain commodities, and labour will make those commodities.

Now, suppose such a nation were to find it necessary, or desirable, to appoint an Emperor or King, or such like, and that he should maintain great palaces and be surrounded by great luxury. And suppose the nation determined that every member of the community should give him £10. To that extent each member would lose the power to get out goods. The

Emperor, King, or other officer, with all the sums of money, would make the demand for labour in the form of services, or commodities, to the exact extent that the community were deprived of the power of doing so.

Now, I am not suggesting that a nation should or should not have an Emperor, King, or other such officer. These are political problems foreign to economics. I am only pointing out the effect of handing him money to spend. It is to alter the distribution of the products of industry. It is not true, as some people imagine, that nations are richer if their Emperor, King, or other such officer, spends their money. Nothing is made. Distribution only is altered. Labour has been used for the requirements of the Emperor, King, etc., instead of for the requirements of the people.

The economist should see in front of him money as a medium for effecting and altering exchanges. Recognise the fact that its circulation does not create goods. It only alters the distribution of labour's effort, or directs to what end labour shall apply itself.

What a lot of common blunders disappear when this is recognised!

How often does a man say, 'Oh, if the price of my goods were raised, I should get more money. Then I could spend more, and the

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people who receive it could spend more,' and so on *ad infinitum*! Even educated people will talk that nonsense.

We can now see that if A sells to B for £100, then A can buy for £100. But if A sells to B the same quantity of goods for £110 the country is no richer. B has lost command of goods to the extent of £10, while A has got that command of goods.

You often hear people say, 'It is a good thing to circulate money.' This is pure nonsense. How can circulating money make wheat grow faster or factories work quicker?

It is like saying that you can alter the weather by tilting the barometer.

No doubt, when a country is thriving, and the community is making and distributing goods fast, the money circulates faster, in the same way as, when you are busy, all the carts are running about more, to carry the goods. But you can no more produce goods by circulating money than you can by lifting a cart off the ground and turning its wheels.

Goods are being produced and distributed, and money is circulated in consequence and not as the cause.

Another observation to be recollected is that money circulates in the opposite direction to the services rendered or the passing of the goods.

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This is obvious, but to recognise it helps to keep one's ideas clear.

The manufacturers hand the workman a lump sum, a full week's wages; as against this the workman hands or leaves with the manufacturer the goods made (or partly made) by his full week's work. Thence both trickle through in opposite directions. The manufacturer's goods go to the retailer, and then in dribbles to the masses; while the money is passed by the masses to the retailers in dribbles, and by the retailers back to the manufacturer.

The quantity of gold in use is increasing. Gold, like everything else, gets gradually consumed, and, as everybody knows, a sovereign gradually wears thin. But gold is being mined at a greater rate than it is being consumed.

As gold is produced, the owners of the mines part with it in exchange for other commodities which they consume; and the gold gradually flows all over the industrial world, in exchange for goods supplied, from all over the industrial world.

Hence all over the industrial world gold increases in quantity. The amount in the big centres is found to gradually and slowly increase. There is more gold in England to-day than there was ten years ago. The same is true of other countries.



## CHAPTER VII

INCREASE OF WEALTH IS A FREEING OF  
LABOUR

THE only way by which a nation can become richer is by something which causes the output of some, or all, of its industries to be made more easily, so that fewer men are required to make the same output. It may be by reason of changes of climate. It may be by reason of saving and tool-making. It may be by reason of new inventions. It may be by reason of foreign trade. It may be from a multitude of causes. But it must be *that*, and *that only*, namely, that the things being made can be made more easily—that is, with less labour—resulting in freeing labour, which freed labour can be utilized in the production of other things, and so the total output is increased.

Imagine, for example, a community with 100 people in it, all at work making goods and dividing them.

They can only become richer by producing more—that is, by producing the same quantity

with less men, so that the freed men can make more of the same articles, if more are wanted, and if not some other articles, for the work-people, or for the capitalist, or both.

It does not want any lengthened consideration to see that, yet it is a fact so often overlooked.

The community cannot become richer by sitting still, nor by having a big holiday on a great occasion, as a Delhi Durbar or the coronation of an Emperor. The community cannot become richer by occupying its labour in getting ready for a great holiday, or by putting up seats to view a great procession, and knocking them down again. Of course, if a great potentate is going to pass, it may be a proper or a pleasing thing to see him and the procession; but the preparation or disturbance does not make the nation richer.

It may, and does, alter the distribution of commodities. It may make some richer, but to that extent it must and does make others poorer. If I have £5 to spend, I might, if left alone, buy from X, Y, and Z; but if I pay a man, for a seat on a stand, £5 to see a procession, those coins find their way back to the capitalist in exchange for goods which the standman gets, and thus the people who put up the seat are richer, but X, Y, and Z are

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poorer. The coins do not pass their way, nor do the goods running in the opposite direction.

Now, the seatman will say this is good for trade, while X, Y, and Z will say, 'How bad trade is!'

The great causes by which the output of industry is increased are—

1. Saving and tool-making, using the word 'tools' in the largest sense to comprise all factories, all machinery, all railways, etc.
2. Inventions of new machinery and new processes.
3. Better organization of labour.
4. Extensions of trade.

### SAVING.

The reader should get a clear idea of what is happening when a man saves. Take the case of a given man who is doing certain work, perhaps as a wage-earner, perhaps in some other capacity. Now, he is receiving in exchange a certain quantity of the output of industry. He is receiving his sustenance and some comforts beyond. In other words, some other or others are working and making the things which he consumes and uses up.

Now, suppose he chooses to say, 'I will do

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without some of these comforts for a few years, and the men who are employed in making such comforts for me shall be employed in making tools by which commodities can be turned out easier. By that process more labour will be set free, and such labour can then be used to make more luxuries, which I will enjoy for ever.'

Now, this is what happens when a man saves and puts by some of his receipts. Owing to the great advantages and facilities afforded by having the tool money, any man who determines not to use all his share of comforts, which means, in other words, not to call on the labourers to make that share for him, has merely to apply his money differently. Instead of buying comforts which he has determined to do without, he engages a carpenter to make a tool. There will be less men wanted for comforts-making, and more for tool-making. See later chapter on 'Supply and Demand.'

It is not necessary for a man who proposes to save to go into all the details of what tool to make and construct, and how to employ the free labour. There are a number of the community already prepared to arrange such things.

It may be that a man who wants to save does not know how to employ the freed labour

in some other direction. He can give to another man, who does, the right to employ his share of labour, on condition that the other man gives him some of the increased output for ever. This is what a man really does when he invests money in some undertaking.

Suppose a railway is being made, and appeals are made to the public for subscriptions. Multitudes of men who are saving will subscribe—*i.e.*, instead of having their share of labour used in supplying them with comforts, will hand over that right to the railway company, who ask the labour spared to make the railway.

The whole operation is rendered easy by reason of the exchange tool, money. The men saving could have had their share of labour used in making comforts for them, etc. If they did so, they would hand over their coins in the course of distributing the goods to the workpeople so employed, but instead of this the people saving hand their coins to the company, and the company give them to the workpeople and make exactly an equivalent demand for labour, but the labour effort is directed to a different end.

Now, the fact to be observed is that, when a man saves and invests money, he has merely directed that his share of labour shall be applied in a different way. He has not for the moment

increased or decreased the output of industry. He has merely altered the direction of manufacture.

The man who has thus abstained from using all his share of the output of industry, and has had the labour hitherto used in making his share applied in making a railway, or some tools, or other useful articles, has become a capitalist.

If a lot of people have made a railway, the railway belongs to them.

The economist should see the real operation in all this, looking through the money part of it, the omission to spend it, and the subscription of it to the company, as though that were a sheet of glass.

Saving in itself is a sacrifice for the moment, inasmuch as the parties are giving up the present enjoyment of their share of labour. Its object is that later, by means of the new tool, labour can be more effective, and there will therefore be more freed labour, and some of it will go to the enjoyment of those who saved.

Again, saving is the directing of labour towards making something which is comparatively permanent, such as the construction of a railway, the building of a house, the construc-

tion of machinery and tools, etc. There is no saving in the mere change of expenditure to another direction equally fleeting.

Above I have explained what a man does when he saves and invests his savings. But there are many forms in which a man applies his savings, and which appear on the surface to be different from the above, but on closer examination it will be found that it is always the same thing.

If a man hands money, say £100, to a banker at interest—'on deposit,' as it is commonly called—it is the same phenomenon. The man had the right to have goods or services of labour, but instead he hands his money to a banker. The banker hands the money by way of loan to someone else, who makes a demand for labour, say in building a factory. By that factory labour is for ever freed. The owner of the factory cannot get the benefit of all that labour. He must hand some of it to the banker: he gives him coins, and calls it interest. The banker hands some of those coins to the original investor, which he calls interest. The banker and the original investor make a demand with these coins for labour, and so are demanding and getting the services of part of the labour freed.

Suppose the depositor in the above illustration goes to the banker and asks for the money. The banker will give it to him. This only means that the banker has, by making notes in his book, transferred the right which the depositor had to someone else. The banker is receiving money all day long and lending it, and at any moment he will give the depositor back his money. He has given back to him the right to direct labour in lieu of the right to receive interest or part of the benefit of freed labour resulting from the house or factory, or what not; someone else having handed the banker the right to direct labour, receiving in future interest, or part of the benefit of the freed labour.

The banker is a depository where people are putting in and taking the right to direct labour.

Supposing a man owning a house borrows £100 on mortgage. Now, the man who had this £100 could direct labour. That right has now passed to the borrower, who directs labour in whatever direction he spends the £100. He may spend it in fleeting pleasures. Here there has been merely an exchange. One man had a house, and the other the right to direct labour. After the transaction the first had the power to direct labour, and the other has a part share of

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the house, and is thereafter entitled to part of the annual sum or freed labour resulting from that house.

So, on examination, it will be seen that all forms of saving and investing are the demanding of labour to make something which will in future free labour.

### GOOD AND BAD INVESTMENTS.

When a man makes a good application of labour, or a good investment, as it is called, it is because he has well judged how to free labour.

When he makes a bad investment, or bad application of labour, it is because he has misjudged the freeing of labour or the requirements of the community.

To illustrate this, suppose a community of 100 men, of whom one capitalist, owning the tools, and 30 men in his employ, are making food and necessities for the 100; one capitalist, owning the tools, and 30 men in his employ, are making comforts for the 100; and one capitalist, owning the tools, and 27 men in his employ, are making luxuries for the capitalists; and that 10 are engaged in distributing.

Now, suppose 10 men (*i.e.*, one-tenth of the

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community) determine not to take their comforts, but to cause 3 men (*i.e.*, one-tenth of the comfort-making class) to build a factory to make cloth; and suppose that when this is built cloth can be made more easily, and the labour of 2 men can be freed; and suppose that it will take one man for ever to keep the machinery in that factory going, repairing, and reconstructing. The 10 men who carried out this operation can now resume the consumption of comforts as before, can cause cloth-makers to work in this factory, can use one of the two freed men as an engineer to maintain the machinery, and can have the benefit of the other freed man's services. This, then, is a profitable investment.

Suppose again the same thing, but, instead of it requiring one man to maintain, make and repair the new machinery, it requires 2. This is an unprofitable investment. The 10 men are no better off. They have simply lost the services of labour which they saved when they abstained from consuming their comforts.

If they had subscribed their money to a company who carried out this operation, the company would pay no dividends.

If, again, instead of it requiring 2 men to keep the thing going, it required 3, the concern would be working at a dead loss.

The 10 men would have to continue for ever without their full share of comfort, and would have to continually be subscribing to the company, or else they would have to wind it up, sell the factory for any other purpose for which it might be useful, and lose no more on it.

Another direction in which misjudgment is possible is in the demands of the community.

We have seen that there is continually labour being freed and being used for other purposes by the community. There are always new purposes to which labour is applying itself, as directed by the demands of the community. Now, 10 men saving as above can determine what they will construct. Will they construct a factory for improving the manufacture of some article in common use, such as cloth, or will they construct some building for assisting in one of the new purposes? If they adopt the latter they will consider what is being demanded. They may see that theatres are very flourishing, which shows that the community are directing freed labour towards supplying that recreation. These 10 men may cause a theatre to be built. When they have built it, they may find they have put it in a place where the community do not want it,

or where it is not convenient. They will find that they have lost the output of the services they had saved.

They may determine a new sort of entertainment, and find it is not wanted at all. Look at Wembley Eiffel Tower as an example.

When directing labour with the object of creating a future freeing of labour, the parties must see that they construct what the community wants.

In all this chapter I have discussed saving as being 'a saving and investment.' Now, the huge savings which have taken place have been, and huge savings necessarily are, of that order. When a man is said to be a millionaire, nobody supposes that he has a million sovereigns. His riches consist of all sorts of property.

But there can be small savings taking the form of an actual retention of gold in the possession of the owner. In this case the individual has abstracted gold from circulation for a time or for ever. Such savings as these have so small an effect on the industrial world as to count for little or nothing. But the real effect of such an operation is that the individual has *pro tempore* made the community a present of his share of the output of industry

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until such time as he parts with the gold. This is, however, of so little moment that I do not propose to take up more space by going into the details.

### INVENTION.

By means of a new invention a man may succeed in saving labour. In this case, as in all other cases of saving labour, the inventor can reap the advantage of part of the saved labour, and the community will reap the advantages of the rest.

### BETTER ORGANIZATION.

A capitalist who merely arranges his factory so that the men can work more expeditiously and conveniently has caused a freeing of labour, and the benefit accruing to that will go, as in all cases, between himself and the community.

### EXTENSION OF TRADE.

The growth and extensions of trade are means of freeing labour.

It is because an economy can be effected, which means an economy in labour and a freeing of labour, that manufacturers and merchants, each seeking originally a greater profit for him-

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self, bring about from time to time modifications changes and extensions in trade and industry, and in such cases, as in others, the result is shared between the parties effecting the economy and the community.

### NO DISPLACEMENT OF LABOUR.

Except in the changing, which is dealt with elsewhere, in all cases where there has been a freeing of labour there is not less labour employed. The freed labour is used in rendering services or making other commodities either for the community as a whole or for the capitalists, and in practically all cases for both.

Certain labour having been freed, it will not be left unemployed. The capitalist is not so stupid, even if actuated by no other motives than his own interests. The same quantity of food and workmen's requisites are being produced, but without the assistance of some of the workpeople. The means of support for them is in the capitalist's hands. He will at once employ them to wait on himself or make luxuries for himself, except so far as he is bound to deviate from that course, as explained later, by letting some of the freed labour be employed for the benefit of the community.

The fact that the demand for labour will not be diminished becomes obvious on a little consideration. Suppose a capitalist has ten men in his employ, and he succeeds in doing the same work with nine. If the matter stops there, what advantage is that to him? Clearly none. His factory is producing just as much as before. But hitherto he had to give to the man now discharged a share, or—what is the same thing—its value in money. Now, the very object which he had in effecting the freeing of labour was that he might get something for himself in exchange for that share or that money. Accordingly, with it he promptly makes a demand in other trades for luxuries (or, if he determines to save and invest, for tool-making), and those other trades want more labour to meet his demand. It is because the capitalist wants to get the benefit of labour in one direction that he takes the trouble to free it in another.

#### DIVISIONS OF INCREASE.

The capitalist cannot secure to himself the whole advantage of the progress, because the workmen will have a voice in the matter.

They will begin to agitate. They will say 'Oh no, this labour which is constantly being

freed must not all be employed in making luxuries for the capitalist.' They will (and, as will be seen later on, there are certain forces at work which will assist them in this) demand that some of the labour freed shall be employed in making more and other kinds of comforts, and even some luxuries, for the workpeople themselves.

It is one of the commonest things to hear people say that the interests of labour and of capital are identical, and on the other hand to hear others say that the interests of labour and capital are opposite.

Neither statement is true, and neither false. The truth is, the interests of capital and labour are identical so far as making things is concerned. It is the best interest of labour, as of capital, that the factory should increase its output.

On the other hand, the interests of labour and capital are opposed so far as concerns the division of the spoils. It is the interest of the capitalist that the labour freed by the increasing of the output should go towards increasing his luxuries, while, on the other hand, it is the interest of labour that the labour freed by the increasing of the output should be applied in making more or other kinds of comforts, and even luxuries, for the labourers.



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### SURVEY.

One has only to look around to see how freed labour gets employed. Take a glance over the last century. Look at the construction of all the railways, the enormous extension of buildings, the construction of bridges, the development of tramways, the development in engineering, the development of telegraphs and telephones, and the development in electrical machinery. One cannot exhaust the list. All these things have been made and are being worked by freed labour, some of them for the benefit of the community, some for the benefit of the capitalist.

## CHAPTER VIII

### PRODUCTION AND DISTRIBUTION: CLASSIFICATION.

ECONOMIC phenomena may be divided into two classes.

1. PRODUCTION.—This class deals with the forces and conditions which induce and surround the production, the increase or the diminution of the total output of industry.

2. DISTRIBUTION.—This class has reference to the forces and conditions which affect the respective shares which the different members of the community get.

Before, I have referred to two classes of labour—that involved in production and that involved in distribution. The reader should not confuse that classification of labour with the subsequent matter of this chapter. I am not now dealing with any classification of labour, but with the classification of economic phenomena.

The above division of phenomena is obvious

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enough as a classification, but it is one of the commonest things in life to come across people who mix up the two classes of phenomena.

A manufacturer in England supplying the home market will ask to be protected from a foreign competitor so that he, the English maker, can charge more. He will say, 'If I can charge more, I can pay more wages and spend more, and everyone will be richer.' He thinks it is a matter of production. It is only a matter of distribution.

How can his charging more cause factories to work better? If he gets more money, and pays more wage, and spends more, the people who buy from him will be that much to the bad—they must pay less wages and spend less.

It is essential to clearly separate problems into the two classes—(a) production, (b) distribution.

In considering a given project, or subject, or tendency, or suggestion, the economist will at once determine whether, on the one hand, it is calculated to increase the output of industry—to make labour produce more—or the reverse; or, on the other hand it is calculated to merely vary the distribution of commodities.

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Some projects or causes would involve phenomena in both these classes; for instance, what is known as Protection would (a) lessen production, or make England poorer, and (b) alter the distribution, making the landlords and capitalists richer and the wage-earners poorer still. But this will be better understood later on.

A man may make a tremendous fortune by means of an invention. He may have caused an enormous freeing of labour, which, as we have seen, will cause an increased demand for other labour for the supply of luxuries. This is a case of production. He has enriched first himself and subsequently the community.

Another man may make a tremendous fortune by means of betting. He has not caused any labour to be freed. This is a matter of distribution. This man is getting from the community the share which some other person or persons would have had if they had not been so foolish as to hand him their coins.

A company-promoter might get up a company to carry out some operations, and he might get a large profit himself. This, if he had created an organization which would cause a freeing of labour, might be a case of increasing production, and he might be morally entitled to the profit.

Another company-promoter might get up a company and make a big profit for himself, where no freeing of labour had taken place. In this case he has merely altered distribution, and diverted other people's shares of the results of labour to his own advantage.

Generally, where in the ordinary course of business a man has become rich, it is due to a freeing of labour—by tools like a big factory, by a big warehouse, by a good organization, etc.

Now, in examining any proposition the economist should look to see if labour is made more effective. If not, nothing is gained by the community. The community is not richer. It matters not that some one man or class of men are richer, even if it is a wide class; unless labour has been made more effective, the enrichment of some must be at the expense of others.

When a change merely has in it a movement of money—like the increasing the price of an article—the transferring of money from A to B by means of a tax, or by means of a bet, or by any other means, the distribution of the results or benefits of labour has been altered, but the community is not richer.

#### PROFIT AND WAGES.

'Profit' is a word to indicate the share of the total output which a capitalist gets. 'Wages' is a word to indicate the share of the total output which a workman gets.

These two, profit and wages, obviously depend on one another. The economist regards them as shares in the output of labour assisted by tools.

If the output of the industry of a community remains the same, the greater the share of the capitalist, the less that of the labourers, and *vice versa*.

The shares in the produce of the community may be disturbed by variations in the value of money.

Suppose in England the gold were to be doubled in quantity by some miracle: it would then be cheaper by half. You would have to give twice as much gold as before for the same commodities. Now, suppose all wages were doubled: then wages would appear in money to be twice as much as before, and profits would appear in money as twice as much as before. But the produce of industry has not doubled. Corn is growing just as fast as usual; factories

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are working just the same as usual ; everything is twice as dear. The various members of the community are just as well off as before.

Suppose the same miracle happened, but wages remained at the same figure in money. In this case, everything being double the price it was before, the wages are lower by half—or, in other words, there will have been an enormous transfer of labour, from manufacturing of labour's comforts to the waiting on and manufacturing of luxuries for the capitalist.

The raising of prices by the capitalist means in result a lowering of wages.

### GOVERNMENT LOANS.

If a governing body borrows money from a community, and for ever thereafter pays interest on it, the effect may be different according to what is done with the money.

First, suppose the money to be spent in some useful work—main drainage or harbour-constructing, etc. In these cases labour has been diverted to useful purposes. The purposes cause freeing of labour for ever, and that freed labour in part is employed for, and the result of their services goes to, the lenders of the money. It is paid in gold, and called interest or dividends.

Secondly, suppose a Government borrows

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money and spends it on a war or other purposes having no useful end in future, then labour has been used, but without making any construction by which labour is freed in future. In this case the interest which is paid in future is taken from the community. In other words, labour is perforce applied in working for the lenders, which labour otherwise would have been applied to the benefit of the whole community. It is paid in gold and called interest or dividends.

The results in the first of these cases are phenomena in connection with production. The production of goods, of advantages, and benefits was increased, and the individuals receiving the interest are the richer, as the reward for their saving, to the extent of the share paid to them. No one else is poorer. Probably, also, the whole community is richer.

The results in the second case are phenomena connected with distribution. There was no further production. The individuals receiving the interest are for ever richer as the reward of their saving, but the labour saved has been wasted, or at all events exhausted, and the rest of the community are for ever poorer.

Speaking generally, the debts of our various local bodies are of the first class, and the National Debt is of the second class.

## CHAPTER IX

### LAND

A FUNDAMENTAL truth is that man cannot get or have any article whatever which he has not extracted from land. In fact, he himself is part of land.

All that he has, from the corn that he grows to the picture hanging on the wall, all is obtained in some shape or other from land.

First I propose to deal with the subject of land in connection with production of commodities, and secondly in connection with distribution of commodities.

AS TO PRODUCTION.—A nation's wealth depends mainly on its land. If the land will not yield freely the raw material for the nation, the nation is greatly handicapped, and must remain poor.

1. The land may yield all the raw material a nation wants. A nation so situated ought to grow rich, and will, unless its inhabitants are of a slothful disposition.

2. The land may yield things which foreigners want, such as coal and iron. In this case the nation can make up deficiencies in other respects by giving the foreigners such things, in exchange for other things grown by the foreigners.

Apart from these two sources of wealth, a nation can get wealthy, beyond the scope of the resources of its own land, by rendering the foreigners service in exchange for what the foreigners' lands produce. The nation can be a carrier for the foreigners, or it can import raw material, make it up, and export the finished article.

England derives her wealth from all. She extracts from her country things for her own support and use. She extracts from her country and exports to the foreigner in exchange for the produce of his lands. She works for the foreigner. Her ships carry his goods from Spain to Italy, and from China to America, etc. Further, she imports large quantities of raw material, and, having worked and laboured to make them up, exports the finished articles in exchange for further goods.

The fact that a nation depends largely for its wealth on the production of its land is a fact always to be borne in mind when comparing one country with another. For example, to compare the result of industry in England

with that in other countries, you must compare her with countries of similar advantages, and not with countries of greater or lesser advantages.

#### DIMINISHING RETURN.

Land will not yield in proportion to the attack made.

Beyond a certain limit, the more you attack the land the less you get in proportion.

For example: Suppose a farmer were to spend £1,000 in ploughing, manuring, and cultivating his farm, and at the end of the year in reaping the produce, and he could sell the produce for £1,500. Now, if he doubles his efforts, and spends £2,000, he will not get double the produce, or £3,000 for the produce. He might get £2,750. This tendency is known as the law of diminishing returns.

This result is not limited to agriculture. The same will be found in mining. The farther you go, the more effort you have to make without any greater return.

A nation, therefore, which is increasing in population is gradually going nearer to its limit. As it approaches that limit its population will gradually cease to increase. If owing to some calamity, such as earthquakes, the

capacity of land were to be diminished, and the nation were beyond the limit, there would be wholesale famine, starvation, and death.

On the other hand, and as counteracting this, the limit may be ever and again put farther off, by improved methods of husbandry, by machinery, or by international trade, thus rendering a country less dependent on its own lands.

#### LAND CONSIDERED IN RELATION TO DISTRIBUTION.

Seeing that a nation is almost entirely dependent on its land for its wealth, and entirely dependent on it for its being, it may be open to question whether land ought to be the property of the State or of private owners, but that is no part of the object of this book.

I only propose to explain the forces and tendencies resulting from the land being held in private ownership.

In a country so thinly populated that there is plenty of land for everyone, and that equally useful and equally accessible, if such a country were possible, land would have little or no value, except if and so far as a given piece had been improved by labour, by having a house built on it, or otherwise.

But in a country densely populated, where

particular sites are of great utility to the community, land becomes of great value in itself. The necessary result is that private ownership in land enables an enormous disturbance of the distribution of the produce of industry.

The owners of the land can demand a share of the produce of industry as the condition of allowing their land to be used. But they cannot demand what they like. There are forces at work which regulate what they can demand and what they can get. If any landlord demands more, his lands will be empty.

The force and tendencies which control this are known as the Law of Rent.

The price, or rent, which a landlord can get depends on the advantage of his piece of ground as against other land. Take two farms, one near a large market, and the other a long way from a market, and in all other respects equal. The farm which is nearer the market will be worth more than the other, and the difference in value will be the extra amount of expense, loss, risk, difficulty and trouble, in bringing produce from the distant farm to the market, because at the market all goods of the same kind in exchange will have the same value, regardless of how they got there.

A farm which is so situate that, owing to the trouble or difficulty of raising produce and

getting it to the market, it would only yield a sufficient return to pay the farmer for his capital and labour, will not yield any rent. If the landlord demands any rent no farmer will till it.

A farm which is thus situated is said to be on the margin of cultivation. If its condition were worse it would go out of cultivation. If its condition improves it will begin to yield a rent.

The rent, therefore, of a given farm will depend on its advantage as compared with a farm on the margin of cultivation.

The margin of cultivation varies in different directions, and varies at different times. A nation naturally first farms the lands which are most fertile, and most advantageously located for access to the markets.

Suppose a town were to increase in size : a greater demand for farm produce will be made there. The farms in the neighbourhood will begin to get great prices for the stuff by reason of the scarcity ; therefore farmers will be tempted to farm more land. It would pay to farm lands not so fertile, perhaps farther up the sides of mountains, or to farm lands further from the market. The margin of cultivation will then have moved.

All over a country like England the margin of cultivation will be dependent on degrees of

fertility and degrees of access to market. Obviously, the matter will be much affected by railways and improvements in communication.

In a given nation increasing in population, the margin of cultivation will move towards poorer lands and more inaccessible districts, as the demand for the produce increases. The rent of all farms not on the margin of cultivation will go up as the margin moves into poorer lands and more inaccessible places.

Hence, a landlord of land which has become farther from the margin of cultivation will, without exerting himself, get more rent; not because his lands are better, but because the nation has to resort to inferior lands. This, too, is not at the expense of the farmer, for the prices of food-stuffs have gone up, but at the expense of the whole community, who are paying the bigger prices.

The improvement of means of communication and the fertility of foreign countries have a material effect in shifting the margin of cultivation and lowering rents.

If very fertile lands in America are brought into easy access, London can draw its food from there instead of from unfertile lands in England. The result will be that the unfertile lands will go out of cultivation, and the rents in England will be diminished.

## TOWN PROPERTY.

The rents of town property cannot be referred to the margin of cultivation. The rent depends on the supply and demand for property in every given position.

How many people will take shops in Cheap-side at £50 a year? A vast multitude would apply for such shops, a smaller number would apply for them at £100 a year, a smaller still at £500, and a smaller number still at £1,000. The price goes up until the number is reduced to practically the number of shops available.

## UNEARNED INCREMENT.

It will be seen that as a nation advances in wealth and progress, and becomes more civilized, so more and more of its produce flows into the pockets of the landlords. The farm rents go up as a greater demand is made for their produce, and as in consequence the margin of cultivation is driven into poorer and more inaccessible lands. This movement is stopped, and even reversed, by the supplying of farm produce from foreign lands. No wonder the landlords are in favour of a tax on corn coming into the country. The town rents go up as the



community thrives, and the towns increase, and particular centres and special sites become of great value to the industrial portion of the community.

Do not be led away by the expression 'unearned increment.' It is unearned to those who receive it, but the payment of unearned increment to the landlords is merely the handing over to them of a portion of the output of the industries of the country, the whole of which is earned or made by the industrial portion of the community. The landlord may actually receive the rent in sovereigns, but he thereupon hands back the sovereigns to the community in exchange for commodities made by their labour with the aid of capital.

Confusion should not be made between rent which is unearned and rent which is a proper return for capital. A landlord may expend money on a farm in buildings, drainage, and many ways. Naturally, the rent which he will get for such a farm will be increased thereby. Before you can measure what is the unearned part of the rent, it is necessary to allow a proper return for the expenditure of such capital.

The same applies to town property. A landlord may build a house, and the rent of

the site and the house may increase, but always it is necessary to allow a return for the capital involved in building the house before measuring the amount of the unearned increment.

In and around London the amount of unearned increment pouring into the pockets of the great landlords is something enormous—millions of pounds a year. In London nearly the whole of the rent on the big estates is unearned increment. The owners build no houses. They leased what was once farm land on building leases, which on many estates have fallen in. A huge mass of the house property in London, besides all the land, is, in the hands of big landlords, unearned increment.

This question of rent, apart from the return to capital expended (if any), is only a matter of distribution. Let no one suppose that a landlord receiving a lot of sovereigns, and spending them, is making people rich. Bear in mind the picture of production and distribution of goods, and money exchanging and circulating in the opposite direction. The effect of directing some of the money through the landlord is to enable him to get the benefit of labour which otherwise others would have had. By giving him this unearned increment there are no more goods made, no more people employed; nothing is different, except that a portion of labour is

given up to his pleasure which otherwise would have been used for the pleasure of all. Such is unearned increment resulting from private ownership in land.

I am not saying that the present land law should or should not be altered; I am endeavouring to explain the forces and results economically.

By way of illustration, imagine a community of 100 people, of whom one is a landlord, one is a capitalist, and 98 are workmen; and of these, 40 (working on the landlord's land, and using the capitalist's tools) are making food and necessities for all the 100; 30 working on the landlord's land, and using the capitalist's tools, are making comforts for all the 100; 14 working on the landlord's land, and using the capitalist's tools, are making luxuries for the capitalist; and 14 are working on his own lands, and making luxuries for the landlord.

Imagine in that community 100 sovereigns; that every week the capitalist hands to the 40 men, the 30 men, and his own 14 men, £1 each, and hands to the landlord £15 for rent, and that the landlord hands to each of his 14 men £1 each. In result the capitalist has £1 left, and the landlord has £1 left. Now, suppose every workman goes to the capitalist,

and the landlord goes to the capitalist, and gets a pound's worth of goods and necessities and comforts.

So far—

(a) All the money is back again in the hands of the capitalist.

(b) Every one has had a share of the food and necessities.

(c) Every one has had a share of the comforts.

(d) The capitalist has had the luxuries made by fourteen workmen.

(e) The landlord has had the luxuries made by 14 workmen.

Now, suppose that the £15 had not been paid to that landlord; and suppose the landlord, and also his 14 men, had been making luxuries for the capitalist, and the capitalist, instead of paying the landlord £15 for rent, had paid him £1, and his (the landlord's) 14 men £1 each to make luxuries for the capitalist: the result then would have been as follows:

(a) All the money goes back to the capitalist as before.

(b) Every one has had a share of food and necessities as before.

(c) Every one has had a share of comforts as before.

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(d) The capitalist has had the luxuries made by 29 men instead of 14.

The great fact to observe is that, notwithstanding the non-payment of that rent, no workpeople are out of employment; the nation is not any richer or any poorer. The rent was absolutely a matter of distribution. By eliminating the rent the benefit or result of so much labour is taken away from the landlord and handed over to the capitalist. It is taken away from the man rendering no assistance to industry, and handed to industry, and has not made the community poorer by its disappearance as rent. Forces at work will compel the capitalist to hand over part to the community at large, as I have said before, and as will be explained later.

The conclusion, then, is that the private ownership in land is causing a large quantity of labour to work for the benefit of the landlords instead of working for the benefit of the industrial community.

## CHAPTER X

### PROPERTY AND CAPITAL

By property, as used in this chapter, I mean all that has been made by man.

All property made by man is made to be consumed and used up, and is consumed and used up.

A loaf of bread is very quickly consumed. A coat is used up, but lasts a little longer. A house lasts longer still; a great building, like a cathedral, longer still. But all are consumed or used up.

The object of mankind in industry is to get and have for his *daily* use and comfort as large a share as possible of commodities, advantages, and conveniences.

For the purpose of increasing his future supply of *daily* advantages, he is constantly making things of lasting character. A factory is built and machinery is made in order the better to produce in future *daily* bread, or clothes, or what not.

A residential house may be viewed in the same way. A big effort is made to build a residential house, in order that in the future the protection and comfort resulting from it may be enjoyed *daily*.

The reader should distinguish between the desire to consume and the daily consumption and use of things which is the ultimate end of industry, on the one hand, and the huge amount of property constructed for the purposes of yielding greater advantages for consumption and use in the future. I have in some instances used the word 'wealth' in reference to one, and in other cases in reference to the other, but the context prevents confusion if the reader's mind is alive to the distinction.

The increasing of the wealth of an individual and the wealth of a nation depends on the extent to which its labour is engaged to make lasting things, which is another way of saying the extent to which its labour is saved.

A man having a large share of the output of industry—that is to say, entitled to have the benefit of the services of a large share of labour—can say what the labourers shall do.

He can have footmen, coachmen, and such like, in which case he has the convenience of their labour, but it is of a fleeting character; or

he can require labour to build a house, in which case he for the time being is without any advantage or convenience, but the result of this labour is less fleeting.

Now, in the first case he has consumed the labour; he has employed the labour in a manner which did not make himself or the community any richer. In the second case he has employed the labour in a manner which did make himself and the community richer. There is another house. Labour has been saved.

In an advanced community the enormous quantity of saved labour is represented by the enormous property—all towns, buildings, railways, canals, machinery, roads, etc. It is impossible to make even a general survey.

It will be seen that, when I refer to 'saved' labour, I do not mean saved, of necessity, by labourers. Labourers can save labour, but so also can the capitalist, who, having acquired the right to the services of labour, instead of enjoying their services, induces them to make something of more permanent utility.

#### CAPITAL.

A part of the property we generally call capital, but it is not easy to put down an exact definition, nor is it necessary for my purpose.

There is a large quantity of the property

which is intended to be wholly or partly used in the production of things. This is generally called capital, and the owner of it a capitalist.

The capital comprises all the tools, using the word 'tools' in the widest sense, including factories, machinery, railways, canals, telephones, telegraph, and all other things intended to help in the production of food and commodities.

We may also reckon as amongst the capital all the warehouses, stores, shops, carts, and other things for the purpose of protecting and carrying and distributing the goods in their journey from the factory to the individual consumers.

We may also reckon as capital all the goods intended for consumption, while they are in store, or in transit, and before they come into the hands of the consumer.

The object of piling up all this capital was to free labour, and the labour freed has become immediately employed, partly in waiting on and making luxuries for the capitalist, and partly in making other comforts for the whole community.

Now we have to consider what share of all the output can the capitalists get for themselves; or, in other words, how much of the once freed labour can they get for themselves?

Suppose 100 men forming a community with one capitalist and 99 workmen. Suppose 40 of these are making food and necessities for all. Now there are 59 left. How shall these 59 be employed? Before, in one of the illustrations, I have suggested 30 as making comforts for the workpeople, and 29 as waiting on and making luxuries for the capitalist; but that was only suggested for the purpose of illustration. Shall all the 59 be employed in waiting on and making luxuries for the capitalist, or shall they all be employed in making comforts of one sort or another for the whole 100?

It will be neither one nor the other; it will be something between the two—some will be employed in making comforts for all, and some in making luxuries for the capitalist.

If it were the first, the capitalist would be taking for himself the whole advantages from the mutual help, subdivisions, and other causes which had freed labour. The workmen would have no object in working for him, and the capitalist could never have brought about such a state of things.

If, on the other hand, the capitalist had no advantage, why did he save his share and make tools? To do so was no advantage to him.

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The position must be between the two extremes.

Now, the question is, What determines the extent to which the freed labour shall work for the community or for the capitalists?

There are general forces working upon this problem, and the ultimate result of all of them is to compel the capitalist to yield up to the community a part of the advantage of freed labour.

The following are the main forces or tendencies at work :

1. Competition amongst the workmen. If there are more workmen than can be employed in a given country, owing to the fact that the land does not get bigger but the population does, there becomes a competition amongst them, and they will be willing, rather than be left out to starve, to take a small share of commodities. This, of course, means that fewer men will work to make workmen's commodities, and a larger number will be available for the capitalist's luxuries.

This competition amongst the men is tempered, and stopped, by the population ceasing to increase, except in proportion to and as the country's wealth may increase from some cause or other.

The competition is also rendered less severe by emigration.

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The competition is also deliberately stopped by large combinations of workpeople—so large as to control a whole industry, acting collectively, and refusing in a body to work unless they get a certain share.

2. There is, however, another and very potent force which makes the capitalist disgorge a portion of the freed labour for the benefit of the community, and that is the competition amongst capitalists.

If one capitalist has succeeded, by some special organization or some invention, in saving labour, others will rush into the same business, and you get a larger supply of that class of goods. Thereupon each one tries to cut the other out, and the only way to do this is to offer the community a part of the freed labour.

Take again the illustration of the 100 community, with 40 making food and necessities for all; and assume that there are 2 capitalists, each with 14 men, making the comfort for all, and 30 others are capitalists, and workmen waiting on or making luxuries for them.

Suppose one of the capitalists engaged in making comforts, whom I will call capitalist A, and who has hitherto been making half the comfort commodities for the whole 100 with 14 men, succeeds, by means of some improvement or other, in making the same quantity of

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comfort commodities with only 7 men, thereby freeing 7. He can now enjoy the services of 7 men to wait on him.

Suppose the other capitalist engaged in making the comfort commodities, whom I will call capitalist B, does the same: he will have the services of 7 freed men.

But suppose capitalist A makes up his mind to establish a second factory. He can command the services of 7 men, which are sufficient to work it. He would then be able to supply the community with all the comfort commodities by himself. Capitalist B would have to give up. B's 14 men would be willing to come into the service of A, for A can then command the services of 14 freed men. A by this process, instead of having 7 men, has now got 14 to wait on and make luxuries for him.

That is the sort of thing that goes on, but it never goes to that limit, because, directly capitalist B finds he is being driven out, he says to the community: 'Do not let this fellow drive me out. If you will take my goods, I will give you the benefit of some of the freed labour.'

But A then finds himself being driven out to the extent of one factory. He makes the same offer to the community.

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Now take the same illustration with money introduced.

*Example.*—One hundred men in a community, of whom 2 are capitalists, A and B, owning the tools of the comfort-making establishments, each employing 14 men; the remaining 70 are other capitalists and workmen. All are producing goods and exchanging. Suppose there are 100 sovereigns, 15 in the hands of A, and 15 in the hands of B, and 70 in the hands of the other capitalists.

Now, suppose at the expiration of every week A pays each of his men £1, B pays each of his men £1, and the other capitalists pay each of their men £1. Every member of this community, both workmen and capitalists, has now got £1, and all the goods are in the hands of the capitalists. The workpeople will each purchase one-hundredth part of the goods from the capitalists, and hand back the money to the capitalists, and each capitalist will get back exactly what he parted with in gold. In addition to this, after the pay-day, each capitalist had £1. Assume that they each buy from the other, exchanging goods for cash, and each at the end has the same amount of gold as before, and has been supplied with a variety of goods. In this illustration the only advantage I am giving the capitalists is that they do no work,

but merely get their living in exchange for the use of tools, and no more.

Now, imagine that A by some method or other gets as much out of his works by using only 7 men. He has now 7 men free. Everything goes on just as before. They all circulate the money, and divide up just the same, except that A orders these 7 men to wait on him.

Suppose B does the same. The working and division goes on just the same, except that each of them, A and B, has 7 men waiting on him.

Suppose B is a very industrious man, and means to get better off still. He says to himself: 'I will not use these 7 men to wait on me. I will do without that personal luxury; I will save their labour; I will construct another factory. At present A and myself are supplying the whole community. A has 14 men in his employ, of whom 7 are waiting on him. I will supply the whole community with comfort commodities, and get his (A's) men, and perhaps A himself, to come into my employ. I shall then have 14 or 15 men to wait on me, instead of 7 as now.' Accordingly, he starts another factory. He supplies the community with all the comforts. The community pay him, not 15

sovereigns as before, but 30 sovereigns, because he is supplying all the comforts. With these 30 sovereigns he pays his own men £14, and employs A's 14 men, paying them £14, and employs A (who must now work or starve), paying him £1. Now everything goes on as before, except that A is deprived of his luxuries, and B has 15 men waiting on or making luxuries for him.

What B is trying to do is exactly what all capitalists—not only those of old standing, but the ever continual stream of new ones growing out of labour—are trying to do.

But A does not wait to be snuffed out. Long before he gets to that he commences to disgorge some of his freed labour. He says to the community: 'Do not buy B's stuff. I will let you have mine for 10 sovereigns every week, instead of 15 as heretofore.'

The community will of course, on this, buy A's goods. But see the result on A. Before, every week he was receiving £15, and he gave his 14 men £1 each (7 of them to work in his factory, and 7 to wait on or make luxuries for himself); and they, and he himself with his remaining £1, each took out one-hundredth of the produce. Now he only receives £10 a week. Accordingly, he can only employ 9 men: 7 of them he wants to run the works, and the number



waiting on him or making luxuries for him has gone down to 2. But what about the other 5 men? These men are not left idle. The community has got the control of 5 more sovereigns a week. There is the same output from all factories, and the same quantity of stuff for these 5 men. The community with their 5 sovereigns go to bootmakers or clothiers and demand more boots or clothes. The bootmakers and clothiers want more labour. The idle men are in demand, and get the £5, with which, as before, they take out their weekly share of the produce of industry,

Now, observe the change which has been made.

A produces just as much as before. The community get it just as before. All the community are at work just as before. Money is circulating just as before. All is as before, *except only* (1) A has not got the exclusive service of 7 labourers—he has only that of 2; (2) the community have got the service of the other 5.

In other words, owing to the competition amongst these two capitalists, labour has been transferred, from waiting on or making luxuries for the capitalist, to making comforts for the community generally.

This is the substance. The change took the form of A lowering his price, but when we

talk about price we have money in mind. The economist should be able to look through money as a piece of glass and see the real facts beyond.

But now to return to the competition between A and B. We have seen how A saved himself, but B will try the same game. The result is that both of them, directly the competition started, commenced to yield up their once freed labour, which they wanted to employ for themselves, to the community.

For the sake of illustration, I have taken the case of a capitalist suddenly adding 50 per cent. to the output of that class of goods. Of course, this never happens in reality; but what does happen is this:

Whenever a trade is a flourishing trade, yielding a big profit, which means enabling the capitalist to take a big share of once freed labour, to that trade there is a rush of capitalists. There follows a greater supply of the articles made in that trade; thence follows a lowering of prices, which means a yielding up to the community of some of the freed labour. But as the rush into the trade goes on, there comes a time when the profit goes down, and then the rush slackens and gets normal. That time is when the competition in that trade is

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such that there is in it no real advantage over other trades.

CONCLUSION.—Every member of a community is striving to free labour in this direction or that direction, and to take advantage of the same, which means to employ that labour freed for his own advantage, but is immediately forced to yield up some of it to the community. So by individual effort the whole community gradually improves its condition.

### CAPITALISTS AVOID COMPETITION.

It is very obvious that it is always the interest of capitalists to escape from or prohibit competition.

MONOPOLY.—Where a capitalist can, by some means or other, escape from the competition which compels him to yield up part of his freed labour by the process of lowering his selling price, he has obviously a great advantage over the members of the community. All the augmentations of wealth, by subdivision of labour, by new inventions, and other means, he can keep to himself.

Everyone has in mind the big monopolies, like water companies, gas companies, tram companies, railway companies. It is not for

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the economist to do more than point out that in all these the ordinary element of competition is absent. How, and under what circumstances, and by what means, such organizations should be controlled is not a part of this work. Efforts are made to prevent the concern from taking an unfair advantage of the community in various ways—*e.g.*, by limiting the dividend and compelling the undertaking to lower its charges rather than pay a greater dividend.

TRUSTS.—A trust is an effort by a given trade to get the advantage of a monopoly.

If all the traders in a given trade form themselves into one big body, and agree not to compete with one another, but to keep up prices, they are not, in fact, creating any further wealth, although they may become immensely wealthy. They are merely affecting the distribution, abrogating to themselves a greater share of the output of labour than they otherwise could receive, and which otherwise would have worked for the community.

PROTECTION.—Protection is the common cry of the manufacturer making for the home market. This affords him, to some extent, a monopoly, and enables him, not to create more wealth, but to get or retain more of the wealth of the community than he otherwise could get or retain.

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Such a manufacturer may get very rich under a system of Protection. But he has not thereby increased the output. All that he has done is to affect the distribution in his own favour and to the detriment of the rest of the community.

## CHAPTER XI

### LABOUR

FROM an economic point of view, labour should be viewed as embracing the services of all who are working as part of an industrial community.

The most elementary conception of labour is that of the men who are making things.

But to this must be added the vast army of workmen engaged in distribution. Amongst the labour must be included all employed on the enormous goods traffic on the railways and on the road. Realize the enormous number of clerks, superintendents, and officers of one description and other.

Further, we must recognise in labour all superior classes—company directors, secretaries, merchants, shopkeepers, and their staffs.

Further must be included men like policemen, who actually assist in the output by relieving the working community from the necessity of keeping the peace and guarding themselves.

Further, we must include all employed in Government departments, who, by keeping order and regulating affairs, are working, and so assisting the industrial community in its wealth-making. Judges and lawyers are likewise workers in the great output, assisting in regulating laws for a complex industrial community.

Physicians and dentists are also workers in the community, affording special services or work, just as much as a footman, only their services are not required with the same regularity.

Multitudes, although outside the ordinary weekly-wage-earning class, are the same in principle from an economic point of view. They receive their respective shares of the output of industry, like all the others, brought about by the exchange tool, money.

In some cases a governing body collects money from the citizen, and hands it to, say, a judge, who hands it back to the capitalist in exchange for commodities. In other cases different members of the community, entitled to a share in the output, pass on with the exchange tool money some of their share to the doctor or the lawyer, or whoever it may be, who return the money to the capitalist again when taking out the share of produce.

I have already, in the chapter on Capital, dealt sufficiently for this book with the tendencies and forces which regulate wages as against the capitalist. But it is now only to be insisted once again that it is in the interest of workmen to increase the output of industries, whether it is making goods or building a house, or what else. The greater the output the greater the share the workmen can get.

I often hear it said that bricklayers have a rule never to lay more than a given number of bricks, and that a very limited number, a day. I do not know if it is true or not, but it does not want much consideration to show that it is folly on their part to minimize the result of their labour. By making their trade a bad paying trade they cannot force up their wages.

It is so obvious that the greater the output in all industries the greater the possible wages of the workers.

I have already elsewhere explained that the freeing of labour does not involve the failure of employment, but means only the change in the nature of employment.

I here propose to further illustrate that. Assume for a moment a capitalist who had two men in his factory, and that that was all the staff. Suppose by some means or other

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the capitalist succeeds in getting all the work done by one man. For the moment put money out of your mind, and reflect what is the use to the capitalist of freeing that labour. Here he is making something, say boots, for the community. He makes and hands out as many boots as before. Other people are making goods as before. In what respect is this capitalist any better off? The only way in which he is better off is by getting the freed labour to do or make something for him.

Now, if you put the money consideration in, the result is exactly the same. Money is only a tool. If the capitalist has a larger quantity, it is of no use to keep. He cannot eat or clothe himself with it. He promptly spends it, which means that he hands it to labour in the course of employment. It may be that he employs more labour as servants, or it may be that he invests it—that is to say, employs labour to make permanent property. However he spends it, or whatever he does with it, he employs labour with it. The result is exactly the same whether we complicate the problem by introducing the tool money or not. The capitalist's only advantage in freeing labour is to be able to employ it otherwise. That is his object in freeing, and that is what he promptly does.

## CHAPTER XII

### EXTENSION OF TRADE

COMMUNICATION.—The subdivisions of labour are absolutely dependent on means of communication. It is no good for one portion of the community to be making bread for all if it cannot be carried to them, nor for another to be making bedsteads for all, if the others cannot get them to lie on.

Hence means of communication is the great handmaid assisting the wholesale subdivision. It is owing to our present means of shipping and railway transit that the trade of the world has got to its present state.

GENERAL EXTENSION.—As an industrial community grows, there is a tendency to greater and greater subdivisions of labour. As capitalists multiply there is a tendency for each to take in hand some particular operation, where he has grasped the possibility of a saving, perhaps by means of a new tool, perhaps by means of an invention, or perhaps by an economic way of working a factory.

Further, there is a tendency for the establishment of all kinds of middlemen by an individual realizing a possible freeing of labour out of which he can get a share. It may be the position of a merchant or shopkeeper, an agent, an insurance company, or an infinity of others. All which flourish are means of freeing labour, to be at once directed to another channel.

Consider for a moment the man who adopts the course suggested in Chapter IV. Suppose that builders, wanting materials, have to go all over the country to the place of supply to discover what is available and what is not. All sorts of delays and losses of time and labour would be involved. One manufacturer might be found to be out of the commodity, having just supplied someone else. Now, suppose a man sees the possibility of saving labour by keeping a store of many kinds of material, being always in touch with the sources of manufacture, and always able at once to supply builders. Such a man we should call a merchant. He saves the labour of the builder and his staff, but he gets part of the freed labour. By always knowing the means of supply, he gets his goods always from the place where they are cheapest, and he charges the builder a profit, the result being that the

builder has made a saving and this merchant gets part of it.

Further, aided by improving means of communication, there is a tendency for traders to aggregate in localities. Farming develops where farming can best be done, because there it is more profitable. Cotton-making goes to the places where cotton-making, owing to climate or other causes, can best be done.

There are multitudes of causes which will induce certain industries to gravitate to certain places. Obviously, climate is one great cause, especially in connection with corn-growing and farming. Mining is another great cause. In particular in England, the iron and coal mines cause a congregation of industries dependent on them, such as machine-making, etc. A chance development of a large factory may cause other works, dependent on it or supplying it, to run into the same neighbourhood.

There are multitudes of causes which tend to induce industries to go to a centre.

These tendencies, running hand-in-hand with the improved means of communication, cause and have caused enormous developments, until now corn is grown in those parts of the world where corn can best be grown, and is sent all over the world. Cotton goods are made in Manchester and other places where they can

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best be made, and are sent all over the world. Birmingham goods are sent all over the world. German goods are sent all over the world.

This vast development has been brought about because by it individuals, one here and one there, have each seen the way to enrich, first himself, and secondly the community.

This development is the line of growth of wealth, proceeding from the capacity of a single man working by himself to the great wealth of the modern world.

This development is making the best for man of the materials of Nature.

Once this is realized, it becomes obvious that every extension made and persisted in by merchants and other members of the community is making the community richer, and that to hamper this development or to put back this development is to hinder the industrial world in its growing, or to make it poorer.

## CHAPTER XIII

### SUPPLY AND DEMAND

THE law of supply and demand is the expression used to denote the tendencies or forces which determine in what direction labour shall exert itself.

If a man were making commodities for his own use and consumption, it is very evident that he would make the things which he wanted in the order in which he most wanted them. He would not make balloons if he were starving. He would give his attention to making food. Having supplied himself with food, he would not make balloons if he wanted clothes. So would next give his attention to clothes. Always his wants, his demands, would direct his labour, would direct the supply of the articles wanted. It is obvious that his demands could not increase his working capacity, but that they could direct his efforts. It would be the same in the case of 2 men working together, or of 10, or of 1,000,000, or of a whole nation.

All this appears very simple and very obvious, but it is frequently overlooked.

#### DEMAND DIRECTS SUPPLY.

It is often said that demand creates supply. Nothing can be much more absurd than that statement, taken in its literal meaning. An economist knows what is meant by it, but a person not versed in the subject will often throw the expression about in a light and airy way, with the most charming innocence as to his own ignorance of the meaning of the phrase.

If it were true literally that demand creates supply, what a lovely time we could all have! Demand and be rich.

How natural, on the other hand, to realize that a nation's demands shall direct its supply! As in the case of a man, so of a nation.

In this as in many other economic problems, the result beneficial to the community is brought about by individuals seeking their own advantage.

In order to follow the working of this in a whole nation, it is necessary first to realize the effect of a deficiency of supply, as against the demand, of any particular article.

In any given article, whether it be a shop or

a balloon, the price will go up until *at that price* the supply equals the demand. The whole pith of that statement lies in the words 'at that price.' Suppose 10 people want article  $x$ , and there are only two articles  $x$ , the owner of  $x$  raises the price. Perhaps at £5 10 people will buy it, but at £10 only 7 will buy it, at £20 only 5 will buy it, and at £30 only 2 will buy it, and above £30 only one will buy. Now, the maker will soon find out what a demand there is, and he will sell his articles at £30. If he puts the price at £35, he only sells half his output. Hence the price goes up or down till it reaches the price at which the demand equals the supply.

By way of illustration, suppose again the case above stated, where the man making  $x$  articles is getting £30 each, and suppose that he makes them at an expenditure of £4 each, making a profit of £26 on each  $x$ . Now, there are 10 people who want  $x$  at £5 apiece, but only 2 who want it at £30 each.

Now, suppose that there are 10 people who want  $y$  articles at £5 each, and that the makers of  $y$  articles are making 10  $y$  articles at a cost of £4 each, and selling them for £5 each.

All people in  $x$  trade will be making bigger profits than in the  $y$  trade. The result of that will be that people, looking out to enter in



some business, or for some use for their capital, will go into  $x$  business. Capital will be applied to  $x$  business. Boys will be apprenticed to  $x$  business. Everyone who can will go into  $x$  business. The result will be that in  $x$  business there will soon be a larger supply. But at the previous prices there is no larger demand. Hence the different makers, in their anxiety to do business, will lower their prices, and this will go on until the supply of  $x$  is such that it is no more profitable to make  $x$  than to make  $y$ .

Always there is a tendency for capital and labour to go into the trade that pays best, and this is always the trade the produce of which is most required, having regard to the respective supply and demand of all articles. Whatever is worst supplied, having regard to the demands of the community, it is most to the advantage of the individuals to supply.

It does not matter what the trade is, whether that of a manufacturer, wholesale or retail merchant, broker, importer or exporter, if one of them, owing to some reason or other, begins to get an abnormal advantage, then there is a rush into that business, followed by a keener competition, and a lowering of prices.

The same thing happens with wages. If one trade become abnormally busy, then there

is a demand for workmen. The masters want the men skilled in the particular trade, and will compete, offering bigger wages. Workmen will go for that trade. Boys will be put into that trade. Before long the demand for labour in that trade is the same as in all other trades.

#### EQUALIZING OF PROFITS.

Apart from the fact that demand is directing supply from the same considerations, it will be seen that there is a tendency for all trades to yield equal returns to the capitalist, and likewise equal returns to the workers.

Now, although there are these forces having a tendency to cause all trades and employment to be equally profitable, it is necessary to bear in mind that these forces are tendencies only. They can be permanently or temporarily upset by many considerations.

One trade may be more than normally obnoxious, say that of a butcher. Many people would object to be butchers, owing, doubtless, to fastidiousness. But this will have the effect of lessening the normal entry into that trade, and making competition in that trade less keen than in others. Hence, those in that trade might get a greater profit than those in most trades.

The opposite is also true. A trade which holds out many inducements will be overcrowded. Clerking, which wants no special training, which is not arduous, which is generally indoors, and free from the inclemency of the weather, will be abnormally overcrowded. The competition will be keen and the remuneration low.

Further, a trade or business wanting great skill will be freer from competition and better paid. Take that of a consulting physician.

Again, temporarily, one trade may have an advantage by an abnormal demand on it—by a war, for example, or owing to a novelty like making motor-cars—but these soon find a level. The electrical industry was an example. Twenty years ago this industry was making great strides. Large profits were to be made. But capital and labour flowed to it. Boys were apprenticed to it by thousands. To-day the trade is as full as any trade.

There are multitudes of permanent and temporary disturbing influences. But nevertheless the general result is that wherever one trade, taking all its advantages and disadvantages into consideration, is abnormally profitable, to that there will be a rush until its profits are down to the normal level. Hence, subject to like qualification, there is the tendency for all

trades to be equally profitable to the capitalist engaged, and likewise to the workers engaged.

CONCLUSION.—A community as it grows richer is continually supplying itself with such other commodities as are most urgent. It will not make balloons when it wants clothes, but will always be making the things most in demand, having regard to the demands of the citizens.

It must not be forgotten that the different classes of citizens may be wanting different things, and the supply will follow their respective rights to demand. Capitalists, who have the right to demand the services of labour in making their luxuries, may be demanding motor-cars rather than yachts, or yachts rather than motor-cars, while the rest of the community may be fixing their demands on quite a different set of articles. The supply will be directed to meet the various demands, having regard to the rights or powers of the members of the community to make demand or to direct.

In this chapter I have, for brevity's sake, talked about money, and of the sellers selling for £30 or £5; but the reader should ever bear in mind that money is only a medium. He should look through money, as I have said before, like a piece of glass, and should realize that, when a man sells for £30, he is exchanging

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ing the labour involved in making his articles for the labour involved in making articles which generally sell for £30, and that when his price has come down to £5 he is only getting in return for the same labour the result or produce of one-sixth the amount of labour the benefit of which he was getting before, his customers—probably the community at large—getting the benefit of the other five-sixths.

## CHAPTER XIV

### AN EVER-CONSTANT STREAM

IN the preceding chapters I have given isolated examples showing tendencies or forces in the growth of industrial work, but it is necessary to realize that in a large civilized and highly-developed community multitudes of movements are taking place at the same time, and in an ever-constant stream.

1. There are always a vast mass of people consuming less than their share of the output of industry, and causing labour to employ itself, not in making comforts for their consumption, but to make property of a permanent character, be it a house, or machinery, or what not.

To realize this, take the picture of a community of 100. Assume that there are 10 capitalists and 90 workpeople, that 3 capitalists and 30 workpeople are engaged in making food and necessities for all, that 4 capitalists and 30 workpeople are making comforts for all, and

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3 capitalists and 30 workpeople are making luxuries for the capitalists.

Now, let us assume that the people engaged in making comforts for all are occupied in different occupations, and let us imagine that one capitalist and 10 of the workpeople are making the necessary buildings and factories required for the purpose of making comforts; that by their efforts these buildings are not being increased in number, but that these workpeople are just keeping them going, repairing and rebuilding from time to time as and where necessary; and suppose one capitalist with 10 men is employed in making ordinary articles of comfort, as, for example, common carpets.

Here there is one capitalist and 10 men making ordinary common carpets and such like for all these 100 people.

Suppose, now, that 10 people (one-tenth of the community)—it does not matter who they are—say to themselves, 'We will do without carpets and such like, and save the cost': the effects are as follows: There is less demand for carpets; the tendency to go into that trade is diminished; one man will be discharged.

Suppose these ten people who want to get richer—that is why they are saving—demand that a factory shall be made. In result there will be an increased demand for building, an

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increased tendency to go into that business, a demand for more labour in that trade.

This is constantly the state of affairs. The demand in trades constructing things of a permanent character is constant. It is not that people who usually demand certain comforts suddenly give up doing so, and suddenly make a tremendous demand for building or machinery constructing. There is not a sudden throwing out of work of men engaged in making carpets, as I said before, or other comforts. The demand for comforts is always below the possible consumption, and the demand for permanent construction to that extent is always increased.

2. There is the ever-constant freeing of labour by means of inventions, better tools, better organizations, greater and more advantageous subdivision, and other causes.

3. There is the ever-constant utilizing of freed labour to make new things—cycles, motor-cars, telephones, etc.—and in many cases increased quantities of things previously in use.

The freeing of labour does not, as shown earlier in this book, throw men out of work, for the demand for work is exactly the same. But neither does it, as a rule, temporarily throw them out. The only effect is to lessen demand in a trade, and to increase it in others, and this

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is so gradual that the forces of supply and demand keep the level steady.

4. There is the ever-constant yielding up of some of the free labour to the working for the community at large as apart from the person who, by some means or another, has brought about the saving.

In my illustrations I have stated the case as though a person who succeeded in freeing labour occupied the self-same labourers for other purposes, and ultimately yielded up some of the self-same labourers for the purposes of the community at large. The self-same labourer could not always be used and changed about thus. A farm labourer could not be suddenly used as a footman, and later on as an engineer.

What happens when, for example, by an improved method in farming, labour is freed is that there is less demand for that class of labour, and more demand for, say, the footman class, with the result that the normal flow into the farming class is diminished, and the normal flow into the footman class increased.

Again, the process by which the capitalist has to yield up a part of his freed labour is gradual, and there becomes a less demand for, and so a less flow into, say, the footman class, and a greater demand for, and so a greater flow into, the comfort-making class.

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Further, realize that all the forces and tendencies are acting simultaneously, that as labour is being freed so (a) labour is raising its wages, and (b) the capitalists are competing and yielding up part of the freed labour. In the result, part of the labour being freed is passing, without break, into the manufacture of comforts for all, and part in making luxuries for the capitalists; the extent to which the flow is in one direction or the other is determined by the struggle between capital and labour.

As labour is being freed, so labour is being employed in other directions, some for the benefit of the whole community, and some for the benefit of those who caused or effected the saving. This is an ever-constant movement without serious break or hindrance. There is a little friction in the process, which must be put up with, but that will be dealt with in the next chapter.

## CHAPTER XV

### CHANGING

IN the industrial world growth of wealth involves a constant change, a developing here, and a decaying there.

One industry will thrive at the expense of another, or one will thrive in one place while another decays in that place, but thrives in another place. This change only takes place if and because, by the change, individuals are becoming better off, and following that the community is better off.

Railways came in and gradually destroyed coaching. Motor-cars, etc., may come in and gradually destroy horse-rearing.

So, in a different manner, a machine may be made which will with one man do work hitherto done by ten.

But, as we have seen, in every case when a demand is failing in one trade, an increased demand is being made in another.

Now, when any change is brought about

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gradually, as generally is the case, there is not much damage done. For the time an increasing industry is paying well, and people rush to it, and send their sons into it, while a decaying industry is below par, and people get out of it, and do not send their sons into it.

But no doubt when an industry is rapidly and suddenly left in the lurch, or machinery displacing one class of workmen is suddenly and extensively used, it is a misfortune to those displaced.

This is true whether it be the fate of a capitalist or the fate of a workman. Capitalists who have laid down special machinery and plant for a particular purpose incur a heavy loss by the disruption. Workmen who are skilled in one particular work are less useful in the general market, and hence have to take a smaller wage, and a smaller share in the general output. As a nation advances, this changing becomes more serious to the capitalist and less serious to the workmen.

Most of the changes which affect the workmen are in the introduction of machinery. Most men are, nowadays, workers with machinery of some sort or other, and easily adapt themselves to some other machine. The more the labour of man is done by machinery, the less necessary for the workmen to be specially apt in

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any particular operation, and the less serious is the change to the workmen affected.

With the capitalist the opposite is the result. The more production involves complex and expensive tools and machinery, the greater the loss to the capitalist by its displacement.

However, no matter what the share of losses may be to the individuals, there is no escape from such losses if the community is to grow richer.

## CHAPTER XVI

### NO BOUNDARIES

IN my previous chapters I have used the expression 'food and necessities,' 'comforts,' and 'serving and making luxuries,' as though they were three distinct classes of labour effort. I have done this with the object of giving a picture of what is really happening between the rich and the poor. But there are not, and cannot be, any lines drawn into which it would be possible to fix all commodities. There is no saying what is a necessity. A Chinese workman might work and live at a level that an Englishman could not live at. Many things which at one time would be looked upon as luxury may be so multiplied, as wealth proceeds, as to become a common everyday comfort, and so from comforts may after a time become necessities. Take as an example tobacco: 300 years ago this was a luxury indulged in by the rich, but it is not so to-day. To most people a bed would be

regarded as a necessity, but to the very poor it may be a comfort they cannot attain to.

But these considerations in no way destroy, and should not be allowed to confuse the operation of, the forces and tendencies which I have sought to illustrate.

The object of labour by a community is to supply the community with food and necessities, comforts and luxuries of all sorts, and these range from the articles of greatest necessity to the more fleeting pleasures. An actor is a member of the community, and his effort is to afford pleasure. He is producing, like all others, a part of the output of labour. When a man pays a shilling and goes into the gallery, he has taken advantage of that amusement, and caused a part of his share of the general output to go towards the members of the community causing the amusement.

There is no boundary line in the produce of labour. The produce comprises all our advantages produced by labour with or without the aid of tools. A lodging-house at the seaside, a park, a museum, a song, a firework display—all are the output of labour distributed amongst the members of the community, having regard to the respective shares and the proportions in which they are entitled to the same.

So, again, with members of the community.

In my illustrations I have treated all workmen as equal. Men vary in their respective values, and their shares in the output of industry vary in one unbroken line, from the poorest to the richest.

But all these considerations in no way vary the principles which I have attempted to make clear.



## CHAPTER XVII

### STEADINESS

AN industrial community, left to itself, gradually and slowly grows to the producing of the greatest enrichment that its lands are capable of. Ever and anon, as it frees labour, the freed labour makes something for the rich man and for the workman, how much for the one and how much for the other depending on the forces which have been explained, and what particular commodity for the rich or what particular commodity for the workman again depending on demand.

So slowly and gently the community proceeds, when able always making the things next in demand, which as it grows richer are further from the necessities. It ultimately can indulge largely in pleasure, holidays, recreation, and amusements.

One has only to compare England of to-day with England fifty years ago to see the

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enormous change in the pleasure, recreation, and amusement indulged in, and that state of affairs is gradually but surely descending the social ladder. To-day how many men take their families for a holiday whose fathers could not have dreamt of doing such a thing!

The worst thing that can happen to a community is to be constantly disturbed by abnormal requirements.

If a nation allows its King a certain share of its labour, brought about by handing him sums of money which he hands back in exchange for their services, well and good. They may get their money's worth in some indirect advantages. Now, suppose this King stays in one town, and is practically always there, the gold sovereigns for him are collected all over the kingdom, are handed to him in, say, London, pass from him to shopkeepers and others in London, and pass from them throughout the country. In the opposite direction is a stream of the output of labour, collecting and passing into the hands of the shopkeepers and to the use of the King and his retinue.

In order to arrange and manipulate that stream of goods there are required certain tradesmen and others. A demand has been made, and the demand is directing the supply.

Tradesmen and others have come there to meet that demand.

Now, suppose this King suddenly goes away. 'What a lot of people are out of work! How bad trade is!' say the shopkeepers.

But the King is somewhere else; he is making a demand, and directing the supply to another part. By constantly moving about he is producing just that disadvantage that happens when one industry is disappearing and another coming suddenly.

What is wanted for a country's best economic advantage is steadiness, and not constant kicks and sudden demands, altering the easy stream of demand and supply.

I have referred to the movements of the King, not because I think them important—I think them economically, in a big country like England, very unimportant—but in order to prevent misconception of the factor. Some people think trade is improved by the King going about, whereas the reverse is the real fact; but the whole thing is a flea-bite.

There are some disturbances which are of far more importance, and cause lasting mischief.

Such a disturbance is a war.

The result of a war is an enormous dislocation of industrial progress. A large demand is made, and hence labour is directed to make

guns and means of destruction, and the result of the labour effort is used up at an enormous rate. It will be observed that all this is that kind of application of labour which does not increase the future prosperity of the community. In the late war England spent some £250,000,000 or so. In other words, she collected sovereigns, and to that extent directed the labour to make things useless for all future purposes. But for that, all the labour so used would have been employed in building houses, factories, and making machinery for the industrial world. While England was at war comparatively no new works could be built or opened; all the country's savings were mopped up and thrown away on the war.

Not only is there a tremendous loss by using the labour without permanent advantage, but a lot of other saved labour, in the shape of machinery and factories already built, become for the time useless. In the case of normal progress, it would be reasonable to anticipate that a lot of the labour being freed would be employed in some particular direction, say in making tramways. Around the tramway-making there would grow factories—to build the cars, to make the electric apparatus, and for dozens of other purposes. All these would

have come into existence in obedience to the growing demand, or the direction in which the community wanted its freed labour re-employed. Now, if suddenly all future freed labour is being used up in gun-making and in war preparations, there is an enormous waste. The tramways cannot be made. But, further, many works, much machinery, and hosts of men about to be indirectly employed, are wasted. The community has suddenly changed its directions. A lot of works and men are not wanted for the purposes for which they had been got ready in anticipation. Since the war many capitalists have found that for the time being their machinery is being wasted. In many trades the works are not fully running, and many are complaining of depression.

The Franco-German War of 1870 was likewise a cause of great depression to those countries. It also produced indirectly an undesirable disturbance in England. The first result was that there were large orders placed in England for manufactured goods, which those countries were in the habit of making, as they themselves were too busy fighting to work. Our people had a very busy time. They laid down large quantities of plant and machinery to meet the enormous trade, only to find a few years later, when the Germans and French had

ceased fighting, that a lot of the plant was wasted.

The ethics of war is, of course, no part of a book on economy. War is necessary in some cases, and expedient in others. All that the economist, qua economist, has to do is to explain the effect.

## CHAPTER XVIII

### FOREIGN TRADE

THERE is often much misconception as to international trade, and hence I am dealing with that subject specially.

There is no difference in principle between international trade and home trade or trade generally. The principles affecting trade between one man and another man, or between, say, Middlesex and Hertfordshire, are the same as those affecting trade between England and France.

In the course of advance of industrial communities, as saving and tool-making goes forward, as subdivision of labour goes forward, as trades aggregate to a centre, and as means of communication advance—as man takes advantage of Nature's best materials—individuals in various parts of the world get far-reaching business relations in other parts of the world. Business obviously does not recognise artificial boundaries.

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If we look upon all the industrial nations as a whole community, making and exchanging goods, it becomes obvious that they are all richer by the international trade.

If we consider each one apart, it equally is obvious that it is richer by the international trade. Its international trade is constituted by its merchants purchasing and selling abroad. They do that because to do so makes them richer; and, as we know, a capitalist cannot get richer without a rush of others going to the trade, with the inevitable consequence that some of the wealth must be spread throughout the nation.

All this is obvious from general principles, but consider the matter in detail.

Suppose nation A is making and consuming  $x$  goods and  $y$  goods, and nation B is making and consuming  $x$  goods and  $y$  goods. Now, suppose that nation A, for some reason or other, owing to soil or climate or minerals or other natural advantages, or other causes, can make  $x$  goods more easily than  $y$  goods, and suppose that nation B can make  $y$  goods more easily than  $x$  goods, it follows that both nations will be better off if nation A makes all the  $x$  goods, and nation B all the  $y$  goods—together they can make more goods. They can then exchange, and each country has more goods as

the result of its labour: the nations are both richer.

The change gradually comes about owing to each man studying, in the first place, his own interests.

A moment's reflection will demonstrate that in the case stated  $x$  goods would be cheaper in A country than in B country, and, on the other hand,  $y$  goods would be cheaper in B country than in A country.\* Hence a merchant in A country, dealing in  $y$  goods, would buy in B country and import into A country. Other merchants would follow suit. There would be a great request for  $y$  goods in B country. The price would go up of  $y$  goods in B country, and the manufacture of  $y$  goods in B country would become a very paying business. Directly the manufacture of  $y$  goods in B country became an abnormally profitable business, capital would flow into that business, new factories would be built, labour would be demanded, all to make  $y$  goods.

But while this is going on, the manufacture

\* Gold in both countries would be practically of the same value. In nation A the  $x$  commodities are cheaper than other commodities—*e.g.*,  $y$  commodities—but in nation B the  $x$  commodities are not cheaper than other commodities—*e.g.*,  $y$  commodities. Hence, gold being of the same value in both countries,  $x$  is cheaper in nation A than in nation B.

of  $y$  goods in A country is a declining trade. The merchants, finding that they can get  $y$  goods cheaper in B country, do not buy from the manufacturers of  $y$  goods in A country. Hence in A country no new capital flows into that manufacture. Gradually the factories are used for other purposes, and the industry of  $y$  goods fails.

At the same time the exact converse is happening in  $x$  goods.

Now, all this does not happen at once. It is a matter of time. The nation A has slowly and gradually changed from a nation making  $x$  goods and  $y$  goods into a nation making  $x$  goods only; its citizens who used to make  $y$  goods are now making  $x$  goods, except that there is a margin of them freed, as nation A can make  $x$  goods for both nations with less labour. This margin of labour is employed to make other things. The nation B has changed from a nation making  $x$  goods and  $y$  goods into a nation making only  $y$  goods, its citizens who used to make  $x$  goods now making  $y$  goods, except that it also has freed some labour. The two nations exchange goods for goods. Both nations are richer.

It is not necessary to the existence of international trade that in both nations A and B one article can be made more easily.

Suppose that in nation A  $x$  commodities can be made more easily than  $y$  commodities, and suppose that in nation B there is no difference in the facilities for making  $x$  or  $y$  commodities. Now, in nation A  $x$  commodities will be cheaper than in nation B. The merchants trading in  $x$  commodities in nation B will seek to import  $x$  commodities from nation A.

This will increase the demand in nation A for  $x$  goods against  $y$  goods. People in nation A will find  $x$  trade more profitable than  $y$  trade.

This will cause an abnormal flow of capital and labour into  $x$  trade, and must diminish the flow in  $y$  trade. Hence the supply of  $y$  commodities will be reduced. Hence the price of  $y$  commodities in nation A will go up. Hence  $y$  commodities have become dearer in nation A than in nation B.

Further, in nation B the  $x$  trade is a receding industry owing to the importation of  $x$  from nation A at a lower price. Hence people in nation B will go into, and put their capital into,  $y$  industry. Hence the supply of  $y$  goods in nation B is increased, and competition will cause the manufacturers to lower the price.

It will be seen, therefore, that in both nations there become tendencies which make the production of  $y$  cheaper in B nation than in A nation. And directly that comes about there is the same set of facts as in the first illustration.

Apart from the above, applying the phenomena surrounding the exchange tool money, the same results will be seen.

In the second illustration, directly nation A sells  $x$  goods to nation B, receiving gold from nation B, the value of gold in nation A will go down. There will be a lot of gold in nation A. It will become cheap. Merchants will give more of it than before for goods. Hence the price of goods, including  $y$  in nation A, in exchange for gold, will go up. More money has to be paid for goods.

By the converse reasoning, the price of goods, including  $y$ , in exchange for gold, in nation B will go down. So again it is seen that the same result attains as in the first illustration.

Hence it will pay merchants in nation A to import  $y$  goods from nation B, and this is resulting merely from the fact that nation A can make  $x$  goods more easily than it can make  $y$  goods. Hence in this case also nation A gradually makes  $x$  goods in preference to  $y$  goods, and nation B  $y$  goods in preference to  $x$  goods.

It is obvious that nation A is richer because its citizens can make  $x$  goods more easily than  $y$  goods, so there is labour freed. But nation B gets a part of the saving. Nation B does not supply nation A with a full quantity of  $y$  goods.

Nation A must make some of the  $y$  goods for its own consumption, and cannot get the advantage of all the freed labour that would result from making  $x$  goods only; and nation B, receiving all its  $x$  goods from A, making  $y$  goods for its own consumption, and only part of the  $y$  goods for nation A's consumption, gets some labour freed. This is brought about by the usual cause, to wit, each man seeking his own interest.

As the members of nation A gradually go into  $x$  trade instead of  $y$  trade, there comes a time when  $x$  commodity is fully supplied in both countries by nation A, and any further production would not sell, except at a lower price; the time comes when it is no longer any advantage for the manufacturers in nation A to give up  $y$  industry and go into  $x$  industry. And this comes about before the whole of the members of country A have transferred themselves to trade  $x$  because in nation A they can make an abnormal quantity of  $x$ .

On the other hand, in country B all members will prefer trade  $y$  to trade  $x$ , and all their members are wanted to make the same quantity as heretofore of  $y$  for both nations; but there are some people in nation A still making  $y$ , so that in that trade also there will come a point when no more people want to go into that.

The result will be a settling down of value of exchange, which will leave both countries with some of its labour free, and which will be applied in other directions for its own advantage.

Viewing the situation in another way, it will be seen that in the produce of the two nations together  $x$  is not worth as much as  $y$ , because it can be made more easily; and therefore nation B will not supply nation A with a full quantity of  $y$  commodities in exchange for the full quantity of  $x$  commodities which nation A sends to nation B.

Applying money to the situation, it will be seen that the gold flowing into A from B to purchase  $x$  commodities, which are cheap commodities, is comparatively small, while the quantity of gold flowing out from A into B to purchase  $y$  commodities is comparatively large. If the two quantities—that coming from A to B, and that going from B to A—equal one another, there must be less  $y$  commodities coming from B to A than  $x$  commodities from A to B. If the quantity of gold going from A to B were to exceed that coming from B to A, the relative prices in gold in the two nations would be altered, the prices in A going down, and those in B going up; and this would cause merchants to restrict the purchases in B—that is,

of  $y$  commodities—and expand their purchases in A—that is, of  $x$  commodities.

Hence, finally, if one nation has a special advantage in producing some article, that advantage ( $\alpha$ ) works to the benefit of that nation, and ( $\beta$ ) by foreign trade works to the benefit of other nations and the further benefit of itself. And the same result is apparent whether the matter is viewed apart from the exchange tool money, or with the exchange tool money in calculation.

The great fact is that international trade only comes into being if by it the nations trading are richer.

International trade only goes on so long as by it the two nations are richer, and it ceases if and as soon as they cease to be enriched by it. It starts because, and it goes on because, the merchants can profit by it, and with them the nations. It follows obviously that, when international trade is progressing, to stop it by the State, no matter by what means, will make the nations trading poorer. They will each have less goods as the result of their labours, and consequently less to divide.

Another feature is that international trade, if left alone, will so arrange itself as to produce the greatest results—whether country A shall buy certain goods from country B, and country

B shall buy other goods from country A, or whether country A shall buy certain goods from country B, who in turn shall buy other goods from country C, who in turn shall buy other goods from country A. These arrangements, if left alone to private enterprises and individual competition, will settle down in the lines which produce the greatest effect—that is to say, which will increase the output of the industries of the countries concerned to the greatest limit.

It follows that any interference or any hampering artificially brought about by the State, whether by taxation or otherwise, is a diminution of the advantages of the international trade.

To state the case again :

To stop international trade—to hamper international trade—to disturb international trade by artificial means—is to reduce the output of the industries of the trading nations. The quantity of goods which the ordinary individual can have and consume is lessened.

It should always be borne in mind that trade consists of an exchange of labour. In a community where the members are working making goods and exchanging value for value, one member does not give services or goods to another for nothing ; neither do all the members of one town give their services or goods to



another town for nothing. Some people think that international trade is one-sided, or that it can be one-sided. It is not and cannot be. It must be an exchange. International trade is the making and exchanging of goods, or the rendering of services for other goods or for services rendered, just like all other trading.

In the case of the United States of America and a good many other countries, it is a case of an exchange of goods for other goods. If you look at their trade returns, you will see that exports of the United States of America, taking one year with another, equal approximately the imports.\* Of course they measure it in money; they talk about selling (or exporting) their goods for  $x$ ,  $y$ ,  $z$ , and of buying (or importing) for  $x$ ,  $y$ ,  $z$ ; but all that money is only a measure: the pieces of gold (subject to very small fluctuations out and in) remain in the cellars of the bankers at New York and other places.

In the case of England, international trade is an exchange of goods for goods, services rendered, and interest on investments. England (*a*) sells (or exports) a quantity of goods, and (*b*) renders services to foreigners in her shipping carrying trade, carrying goods from

\* The United States exports at present slightly exceed their imports. See later on as to exports of a country exceeding imports.

Italy to Spain, and from Spain to China, etc., for which the foreigner pays her, acting as the great carrier of the world; and (*c*) she has lent foreigners money in the past, and they have to pay interest on all sorts of investments abroad. Hence she buys (or imports) a great deal more than she sells (or exports). As in the case of the United States of America, these things are measured or stated in money; hence she sells  $\mathcal{L}x$ , and renders services worth  $\mathcal{L}y$ , and is entitled to receive as interest  $\mathcal{L}z$ . She purchases (or imports)  $\mathcal{L}x + y + z$ . The sovereigns (except for small fluxes in and out) remain in the cellars of the Bank of England and other banks.

That international trade is an exchange, goods or services for goods or services, etc., is obvious to one studying the subject as a theory. But apart from that, it is so as a fact. This is clear from the fact that money does not pass. I do not mean to say that no money under any circumstances ever passes. Small amounts do pass from England to Paris or Berlin, and later on back again to England. But as compared with the volume of international trade it is true in substance to say that money does not pass. England imports goods to the value of, say,  $\mathcal{L}400,000,000$  a year, and exports to the value of, say,  $\mathcal{L}250,000,000$ . She has been doing that for many years

(though not quite to the same extent), but the amount of money in the Bank of England only amounts to about £15,000,000, and does not seriously vary.

It is obvious that with England, as with other countries, her international trade is only an exchange, goods to the value of  $\text{£}x+y+z$  for goods and services and interest to the value of  $\text{£}x+y+z$ .

If it were necessary to add any other considerations, one need only think about it. Is it likely that England would be so foolish as to employ her citizens to make goods and send them abroad in exchange for nothing, or that the foreigner would be so foolish as to toil and make goods and send them to England for nothing?

If we consider the phenomenon of money or gold as a means of exchange in this connection, we shall find that the results are precisely the same.

A student of physics would tell us that a foreign body in water must be forced upwards by the weight of the water displaced. Experience of the shipbuilder shows that it is so. So the man who has studied the subject would say that international trade must be an exchange. Banking returns show that it is so. A nation must buy from abroad goods or services to the

same extent as it earns from abroad, whether by selling or rendering services or by foreign investment.

#### EXPORTS EXCEEDING IMPORTS.

When a nation's exports constantly exceed its imports it is due to one of two reasons. First, the nation may be paying by exports for (a) goods and (b) services rendered. This would be the case with a nation which had no mercantile marine, and who to get its imports must pay the foreigner for the imports and also for carriage. Secondly, the country may be investing abroad. If a country, or, rather, its individuals, invest money abroad in any undertaking or Government loan, that quantity of money will find its way back (see chapter on Money) in the purchase of goods. Hence it is always observed that when a country invests abroad its exports go up. That is the same thing as saying that it has lent the foreigner some of its labour. It has done some work for him. It is the same phenomenon that we have seen before when a man saves and invests. He directs labour to make something. So in investing abroad a man has directed labour to make something for the foreigner—machinery, rails, or what not. So a nation whose exports exceed its imports may be investing abroad.

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The only object with which anyone saves and invests is in order in the future to receive a share of the produce of industry—called interest or dividends—for nothing.

So when a nation invests abroad its exports go up, but in future its imports will go up. England, for example, receives a great quantity from abroad yearly, resulting from former investments.

An illustration of the increase of exports accompanying a foreign loan was seen recently. England having subscribed a loan for South Africa, her exports went up and her imports slightly went down, which, of course, is the same phenomenon.

## CHAPTER XIX

### CONCLUSION

THE tendencies, forces or phenomena attempted to be illustrated in the previous chapters are but the outlines or groundwork. Every chapter could be amplified, and the reader carried to further and more complicated propositions.

The general result of the study of political economy is to simplify. It becomes clear that a community treated as a whole is like an individual treated alone.

An individual as between himself and others gives his labour in exchange for labour. The more he can get, and the less he gives, the better for him. So, as between a community represented by an aggregation of individuals on the one hand, and other communities on the other hand, their trade is an exchange of labour for labour. The more the one community gets from the other in exchange for what it gives, the better for that community.

As an individual pursuing his own interest

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would make something himself, or get it from others in exchange, according to what was cheapest, so with a community.

Many difficulties in the way of the novice disappear directly it is recognised that all trade is an exchange of labour for labour.

The political economist can put money out of the calculation and see clearly the realities.

This book, as stated in the preface, was not intended as an abstruse and heavy research into the science.

Its object was to enable the reader to see through the superficial appearances, which are so deceptive, and to recognise the realities beneath them. If it has assisted the reader in that, its object has been accomplished.

## SUPPLEMENT

### PROTECTION

WHEN this book was written, it was not the intention of the author to include this chapter, the information, theories, and propositions dealt with herein being embraced in the book generally; but having regard to the importance of the subject at the present time this chapter is added to deal with the subject specially.

Protection must have two results:

1. It must make the country as a whole poorer than it otherwise would be.
2. It must alter the distribution of commodities in favour of the rich, making the rich richer and the poor poorer.

Trade is the making and exchanging of commodities, and international trade is simply the phenomenon that the exchanges are running over the artificial boundaries of the country. To stop any of the trade must diminish the nation's output.

A difficulty in dealing with Protection arises from the fact that a Protectionist seldom or never states a complete proposition, but I will endeavour to deal with the various ideas as I have been able to collate them.

1. One of the propositions seems to be: That it is in the interest of a nation to refuse to buy things from abroad; that a nation should go on selling to the foreigner, but should refuse to buy.

Let us examine this first, excluding the phenomena surrounding the exchange tool money. Put money out of sight for the moment. Suppose a man were to say: 'I will toil and slave to make goods, and give them to someone else, but I decline to accept from him anything in exchange. I am afraid that if I do I shall be ruined.'

One would think that such a man was mad.

But that in its simplicity is the attitude of the people who hold the proposition under examination. Let us examine it a little further.

Suppose 10 men were to say: 'We will work and make some goods, and divide them between us, and in addition we will make some other goods, which we will hand over to outsiders, but we will decline to accept from those

outsiders anything in exchange. We are afraid if we did we might be ruined.'

Suppose it were 100 men or 1,000,000 who acted thus.

Suppose a whole nation said: 'We will toil and work and make goods, and hand them to other nations, but we will not accept from those other nations anything in exchange. We are afraid if we did we should be ruined.'

That is the attitude of the people who maintain the proposition under examination.

It is not necessary to refute such a proposition; it falls as soon as it is realized.

Obviously, no man, no 10 men, no 1,000,000 men, no nation, will act like that.

They may be blinded by all sorts of misconception as to what collectively they are doing, but each acting individually will not act like that, nor will the whole lot together, but each man, studying and realizing his own interest, will work for himself and not for the foreigner, unless he gets something in exchange.

Now, suppose a community making goods and exchanging them without outsiders, and suppose some governing authority were to say, 'You are forbidden to receive goods from outsiders or foreigners; if you do, we, the Government, will fine you according to the quantity of

goods received at the port.' The consequence will be that the members of the community—be it the one man, or the 10, or the 1,000,000, or the whole nation—will cease to make and send goods to the outsider or foreigner.

Putting aside the phenomena surrounding money or gold, the result I have stated is too obvious to court any argument. Money is generally the blind which prevents people from seeing the reality. Let us look at it with money as the medium of exchange. As explained earlier in this book, money is only the exchange tool; it does not alter the result.

First take the case of the one man who has been making goods and exchanging them for gold, and exchanging the gold again for other goods. Now, if he were prevented from receiving goods from outsiders, he would soon say: 'What a lot of gold I have! What is the use of it? I cannot get goods because I must not receive any goods from anyone. I cannot manure the ground with gold; I cannot feed myself, or clothe myself, or house myself, with it. I will not go on working and making things, and hand them to others for gold. I will work and make things which are some use to me.' So he will refuse to sell.

Take the case of the 10 men. Hitherto they

have been making goods and dividing them amongst themselves, and also making other goods which they have exchanged with outsiders, receiving gold, and again exchanging that gold for goods from the outsiders. Now, if the governing body orders them not to take any goods from the outsider, and fines the individual who does so at the port of entry, they will very soon say to themselves: 'We have got a lot of gold; we are getting more. What is the use of it? We cannot eat it. It is useful as a tool to facilitate exchanges amongst ourselves, but enough is as good as a feast. Here we are at work making goods, and (with the assistance of the tool money) exchanging them amongst ourselves. But we do not increase the supply of our own food and necessities, comforts and luxuries, by making goods for the foreigner and increasing our exchange tool money. Let us use the labour with which we are making these goods for the foreigner to make other goods for ourselves; then we shall be better off.'

Here, then, again these 10 men will have stopped selling to the outsider.

It is not necessary that these 10 men should meet and arrange all this. The result will come about by each man looking out for himself.

A man who hitherto was making goods and handing them to the outsider for gold will realize that he will be better off if he works and sells straight away in his own country. He used to get a certain proportion of the output of the whole community of 10, and in order to get that same proportion still he must get more gold, because gold is getting cheap in his country, and a lot of it has to be given for the same quantity of goods. In his own community he can get more gold for his services or for his goods, because a lot of gold is given for things there; but outside this community gold is not so cheap as it was, so that the outsider will not give him more gold than before for the same quantity of services or goods. Hence he will refuse to sell to the outsider, and will deal only in his own community.

Such a community so circumstanced, or its several individuals, would not refuse to sell all at once to the foreigner, but as the gold was passing into their country it would become the interest of each man to refuse to sell to the outsider, except for larger and larger quantities of gold. Each individual would raise his gold price until it became prohibitive to the outsider, who has less gold than heretofore, and ultimately each individual would refuse to sell to the foreigner at all.

It is precisely the same thing if the community consist of 1,000,000 instead of 10, or of a whole nation.

Putting aside gold, it becomes obvious that a nation does not export or render services to the foreigner except in exchange for goods or service from the foreigner.

When the tool money is involved in the consideration, precisely the same result is apparent.

The proposition under examination is due to a total misapprehension on the subject, and is absurd.

A REFLECTION.—If it is to the interest of Great Britain to refuse to purchase anything from the foreigner, it must for like reason be the interest of England to refuse to purchase anything from Scotland, or Ireland, or Wales. For like reasons it must be the interest of Yorkshire to refuse to purchase anything from any other county, and the same applies as between all the parishes.

The Protectionist must ultimately get down to the position of maintaining that one man is better off if he sells, but does not buy from his customers. Imagine a bootmaker who always made and sold a lot of boots, but declined to purchase any butter or cheese or any other article from anybody else.

2. Another Protectionist proposition appears to be: That if one nation puts a tax on its imports it is to the interest of other nations to do the same.

Now to examine that. First, recollect that if a nation stops all its imports *ipso facto* all its exports stop, and then it does not make the slightest difference whether the other nations put a tax on imports (being the exports from the first nation) or not, because there are not any.

No nation puts a stop on all its imports. It puts a stop on some, or stops them to an extent only. This case only, therefore, is to be considered now.

Imagine a community of 10 people at work, 8 of them making goods required by all, one making some  $x$  goods, and one making some  $y$  goods, and that they are exchanging  $x$  goods and  $y$  goods with outsiders, in exchange for  $m$  goods and  $n$  goods, and that the  $m$  goods and  $n$  goods are then divided up amongst the 10, just like the goods made by the 8; and suppose, as must be the case, that this community can make the quantity of  $x$  and  $y$  goods which they are sending away more easily than the quantity of  $m$  and  $n$  goods which they are receiving in exchange, and suppose that the outsiders can make the quantity of  $m$  and  $n$

goods which they are exchanging more easily than they can make the quantity of  $x$  and  $y$  goods which they are receiving. These conditions are necessary conditions, or the trade would not have come into being. Now, suppose the outsiders, by some decree of their Government, are stopped from taking  $x$  goods; several results might happen.

(1) The community of 10 might now send  $y$  goods to the outsider in exchange for half the quantity of  $m$  goods and  $n$  goods, and the man who formerly made the  $x$  goods might be employed in making the balance required of  $m$  and  $n$  goods. In this case the community of 10 are worse off, as they now cannot get so much  $m$  goods and  $n$  goods. They cannot make  $m$  and  $n$  goods so easily as  $x$  goods. Hence they will either have less  $m$  and  $n$  goods, or, if these particular goods are of the greatest importance, some other members of the community must make the deficit, and the community will be poorer by the loss of goods which those others would have made. Further, the outsiders must now make  $x$  goods themselves, and to do this they will employ the labour which formerly made the other half of the  $m$  and  $n$  goods which they used to export. The outsiders, also, are poorer than before, because they cannot make so many  $x$  goods with that amount of labour.



(2) If the outsiders want more  $y$  goods than they were before getting from this community, and were always making some themselves, the effect of the outsiders being forbidden to receive  $x$  goods from the small community would be that they would take more  $y$  goods, and still send the community the same quantity of  $m$  goods and  $n$  goods. The men in the community of 10 who used to make the  $x$  now make  $y$  goods. The men in the outsiders who used to make the additional quantity of  $y$  goods now make  $x$  goods. If the little community of 10 can make  $x$  goods as easily as  $y$  goods, they have sustained no loss by the outsiders refusing to take  $x$  goods. But the outsiders cannot make  $x$  goods as easily as  $m$  and  $n$  goods. So the outsiders must have sustained a loss owing to the outsiders refusing to take  $x$  goods from this community.

It is obvious that this community of 10 cannot possibly enrich itself by refusing to take  $m$  or  $n$  goods. If they did, they would have to make them themselves. They might, of course, apply the labour hitherto used in making  $x$  and  $y$  goods, or  $y$  goods only, for the outsiders, to the making of  $m$  and  $n$  goods, but they cannot with that labour make so much  $m$  and  $n$  goods.

Now, the reasoning is precisely the same

whether you are considering a small community of 10, or one of 1,000,000, or a whole nation.

Hence, a nation by putting a tax on imported goods decreases its own wealth-producing power, and may or may not decrease the wealth-producing power of other nations. The other nations cannot gain anything by taxing any import from the first nation. But any of them by doing so must damage itself, and may or may not damage others.

Anyone would expect to find that a Free Trade nation, trading with nations who adopt the practice of protecting by tariffs some of their industries, would be the richest of all those with like advantages of soil, etc. It is so as a fact. England is the richest of all nations who can be compared with her.

3. Another favourite proposition of the Protectionist seems to be: That the foreigner by selling a community things cheap will kill its industries, and, having killed them, will thereafter be able to charge an enormous price for the commodities.

Now, the difficulty is to find out what this contention really is. Does the Protectionist assume that a foreign country will kill all the industries of a given country, or only some?

Imagine two communities, each composed of 10 people, whom I will call nation A and

nation B. Suppose each of these two nations is making and distributing amongst its own members articles  $s, t, u, v, w, x, y, z$ .

Suppose nation A makes up its mind to make twice as much as it wants, and to send the surplus to nation B. This, obviously, is a dead loss to nation A, and a fine thing for nation B. Nation A must have less commodities to distribute amongst themselves, because some of its labour is making a lot of things for nation B, while nation B has just as much goods without wasting labour to make  $s$  commodities. This labour saved in nation B can make more of other things or new things; or all the nation can work more easily and have more leisure.

Now, suppose nation A does the same thing with  $t$  commodities. Nation A is poorer still, and nation B better off still. If nation A goes on till it is supplying all the commodities, its citizens will be gradually getting poorer and poorer, and at last, when it is making all the commodities that nation B wants, nation A has nothing for itself at all. All its labour is employed in making for nation B, and nation A has starved.

But, says the Protectionist, nation A does not carry the thing so far as that. It starts off to send nation B  $s$  goods—nation A being

poorer in the process, and nation B richer—until nation B has left off making  $s$  goods, and pulled down all its  $s$  shops, and then nation A says: 'Now I shall only send you  $s$  goods if you supply us with  $t, u, v$ , etc.,' and so gets the best of it ultimately. It is obvious that directly A is demanding a lot in exchange for  $s$  goods nation B will say: 'We will start making again  $s$  goods.'

The very process by which nation A killed the  $s$  industry is now being reversed, and the reverse will cause  $s$  industry to come into being and flourish enormously.

The idea of one nation killing all the other nations' industries is ridiculous. What for? I am going to work hard, and live in misery, in order to give another man all his requirements, until he has forgotten how to maintain himself, and I shall then leave him to die, having killed myself in the process! It is so obvious that one nation wants the other nation to supply it with something; one nation can only get an advantage out of another by accepting the results of its labours.

The results are the same in the case of communities consisting of 1,000,000 or of whole nations.

Nations are made of individuals. Each one

wants to be richer, not poorer, and no man sends his goods away except to get richer.

Do not let confusion come over this picture by reason of the exchange tool money. If in the picture above depicted a merchant in nation A was sending  $s$  goods to nation B, in exchange for gold, then gold would be flowing out of nation B, and nation B would want some. Gold would become dear in nation B, so nation B would part with less gold for the same quantity of  $s$  commodities, and hence, as the process went on, the merchant would be giving away his  $s$  commodities for less and less gold, and eventually for nothing.

The introduction of money or gold as the medium never changes, though it sometimes hides the real facts. Trade is exchange of goods or services for goods or services.

On a little consideration, the conclusion becomes obvious that nation A does not send the goods  $s$  to nation B, except in exchange for something else, and unless there is a saving in the exchange.

It is obvious that if and when nation A is sending  $s$  commodities to nation B, and so relieving B from the necessity of making  $s$ , or destroying in B the  $s$  industry, it must at the

same time be throwing on B the necessity of making  $t$  commodities or some other goods for nation A, and so developing that industry.

The object of work is to get something. The object of trade is to get someone else to give you something. There is no advantage in giving him something. You only do that because you cannot help it. It is the condition on which you can get something from him.

In the controversy now going on it is curious to observe how the Protectionists generally overlook this. They are putting forward the statement that England's export trade is being damaged. As a matter of fact, the trade returns, when not distorted, do not justify the statement, but show the opposite to be true. But the curious feature is that these arguments are based on the supposition that a nation's advantage is in parting with goods. Obviously, a nation's advantage is in getting goods. They never suggest that England's imports are going down. Provided England can get all the imports she wants, she would be better off if she exported nothing.

The mere fact that one nation sells to others is evidence that it is there and then, at that very time, trying to buy from them. If it lowers the price, it is generally because it has been buying a lot from them.

To suppose that another man or set of men can ruin me by selling me anything cheap is absurd.

If there are in partnership 10 men all at work making things for themselves and other things to exchange with outsiders, it is absurd to suppose that the outsiders can ruin the 10 by selling things to them cheaply.

It is the same thing if a community consists of 1,000,000 or a whole nation.

In fact, when two people or two communities are exchanging, it is absurd to suppose that the purchaser is ruined because the vendor sells cheaply. If anyone told you the vendor was being ruined, you could understand it—but the purchaser!

4. The Protectionist has imported into the discussion the expression 'dumping.' Nobody knows exactly what 'dumping' means in this connection, but the best statement I have ever succeeded in getting is the following proposition:

'That foreigners sell us goods at less than cost price.'

Let us consider what is meant by that. Is it meant that they sell us goods at less than *our* cost price, or at less than *their* cost price; and in either case do they do it constantly, or occasionally?

Remember they do not send these goods for nothing. Some Englishman in every case has bought them, and England has to pay for them in goods or services.

If goods are being constantly sold here at less than our cost price, the ordinary phenomenon is taking place of a receding of one industry and development of another.

If it is alleged that the foreigners are constantly sending goods here at less than *their* cost price, I advise all readers to disbelieve that allegation. Are foreigners, and in particular their merchants and manufacturers, such a set of fools as to employ their labour in making and sending goods to us at less than *their* cost price?

If it is alleged that the foreigner *occasionally* sells here goods made below their cost price, I can quite believe it. But what of it?

All through the industrial world it is happening that manufacturer and distributor are unable to judge precisely the nature of the demands for every particular article, and it is a well-known phenomenon that now and again things are sold at less than cost price.

A great firm of drapers will sell off goods frequently at less than cost price. All the smaller drapers round about wish they would

not, but they do not ask the community to forbid it.

Further, everybody knows that in times when trade is depressed many manufacturers find it difficult to keep their works going, and they will take orders which they know cannot pay, in order to keep their works running and their workmen engaged. But what is the mischief in it? If you worked it out, you would probably find that Englishmen had done precisely the same thing in connection with goods made for export.

5. One other Protectionist proposition is this: By taxing imports a nation makes the foreigner pay the tax.

This is a very funny idea. What a good time every country could have if it were so! Let every country raise its revenue by import duties. Every country could be very lavish in its expenditure, because the foreigner would pay it all. Every country could have Old Age Pensions at the expense of the national Exchequer. In fact, it could pension off all its citizens at the age, say, of twenty-five, and need not be at all particular as to the amount of the pension—£1,000 or so each per annum, or why not per week? All this would be done at the expense of the foreigner. Why should anybody do any work at all?

But somehow there seems to be a screw loose in the idea that the foreigner pays the tax.

The price abroad depends on the supply and demand abroad, and the person proposing to import into England, be he an Englishman or a foreigner, buys at that price, and the importer, when his goods reach the border, has to pay the tax. When he sells he can raise the price to the extent of the tax. The tax must fall, then, on the importing country who levied it.

To a small extent, and that temporarily, it is possible to conceive that you can make a foreigner pay part of an import tax.

Imagine in Germany manufacturers making for English use. Now, if England put on a tax to keep out their goods, it might be that the German manufacturers, finding the demand for their goods lessened, rather than waste their machinery, might for the moment lower their price. But the laws of supply and demand apply to Germans as to Englishmen. The lowering of their price would reduce their profit, as compared with other trades in Germany, and hence there would be an exodus from their trade, thus reducing the output, thus increasing the price, and so the Englishman would have to pay the tax, after all.

To suppose that a nation can, by buying things from a foreigner, compel the foreigner to

supply it with an income is on a par in absurdity with the supposition that a man on buying his meat and bread from his butcher and baker can get an income from them by charging them something when they leave the goods at his front-door.

6. Another Protectionist proposition is this: By refusing to take manufactured goods from the foreigner, although you thereby reduce the output of the nation's industry for a time, you may increase it later on because you have forced the members of the community to learn to make the goods.

This is a proposition which has most sense in it of the Protectionists' theories, but I can find no facts to justify the adoption of Protection based on such a theory.

I can conceive there might be a state of affairs in a new country, say, for example, one of the Australian colonies, where their easiest produce was cattle, and they might be sending to England meat and wool in exchange for, say, *inter alia*, boots, while there was at hand all the hide and other material from which to make suitable leather. It might be under such circumstances that, by preventing the country from receiving boots, you thereby made the citizens poorer *pro tempore*, but that in course of time they had established boot factories, and could make

boots so easily that there was an advantage in their trade. They could make boots as easily as rear cattle.

Having done that, they might become in future as well off, and better, for they would save the cost of carriage. In this case, the Protection would have made that nation or country ultimately richer.

It will be obvious in such a case that if a tax were put on imported boots the time would come when the tax could be remitted. It would no longer produce any revenue, and, further, would not any longer be wanted from a protective point of view, the cost of carriage being in itself a complete protection. Now, you do not find that countries, having once adopted a tax for protective purposes, take it off again because it is no longer required for protective purposes. This shows that what is, in the first instance, a waste or lowering of the nation's wealth is found generally to be so always.

It is obvious that this gives no justification for protection in a country like England.

7. Another proposition hinted at by Mr. Chamberlain is: That protection will save us from trusts.

Now, surely this is the very opposite of the truth.

A trust is a very large company. It is an

amalgamation of all the companies and firms in one trade—or as many of them as will join. The object of it is to prevent competition amongst themselves, and so to keep up prices as against the members of the community—to make and keep the capitalist richer and the community at large poorer.

The country where trusts can flourish is the country where there is no other competition possible. In America they form huge trusts. But if there were no protective duties England and Germany could compete in their markets. So to picture Protection as an antidote to trusts is to misconceive the condition of existence of the trusts.

Surely it would be truer to say: 'Protection breeds trusts.'

8. Still another proposition is that by taxing corn other than colonial and home corn you encourage corn-growing in Canada, and so England in time of war will be free from risks in connection with her food-supply.

This necessitates the inquiry, What will it cost, and what advantage shall we get?

First as to the cost.

Of course, by taxing corn other than colonial and home corn the price of corn here in England will be raised. But to what point?

When in a given market or a given country

there are several supplies, but all insufficient to meet the demand except one, and that one is an ample one, the price of all will follow the ample supply. If the ample supply price is very low, the others must come down to it, or shut up business and retire. When the ample supply price is very high, the others can, and of course will, in their own interest, sell all their stuff at that high price. At present the price here is fixed by the foreign, and mainly the United States, supply.

The object is to enable Canadian corn to compete here. It must be borne in mind that Canadian land is not so fertile or not so accessible as United States land and other parts of the world whence we get corn now. The price at which we can get corn from Canada must be the price at which it is worth the while of the Canadians, and all others engaged in the trade, to grow it, bring it here, and sell it. They must put forward a greater labour effort than inhabitants of the United States and other places to grow and export the same quantity. They will therefore want more from England in exchange. The lowest price for Canadian corn must be such a price as, having regard to their effort, will make corn-growing in fresh lands to be attacked as profitable as other industries in Canada. If a tax is put on all

other imported corn, it must be such that the price will be raised here in England at least up to, and slightly beyond, the price at which it will pay the Canadians to supply us.

So there are two factors here going to the fixing of the price, and one is purely artificial and will be dictated by the State. The situation is such that that one must be the higher and must dominate for a long time to come.

If and when Canada grows enough for the English supply (if that ever happens), the price will be the Canadian price as above ascertained.

The effect of the preference given to the colony should be noticed.

If England were to tax all corn coming into the country, however mischievous it might be in some respects, and however unfair and iniquitous as between members of the community, the tax payable by members of the community in increased price on all such corn would at any rate go into the national Exchequer. But there being no tax on corn from Canada, that portion of the increased price which would have gone to the national Exchequer will (to the proportion in which England buys from Canada) be paid to Canada, to compensate the Canadians for making an

attack on Nature for goods at an unnecessarily disadvantageous place.

Remember, all the money we send the Canadians, or promise to send them, will remain here, and we shall send them goods and services to that amount. To the extent of the increase in price, English labour is given to Canadians, to compensate them for wasting their labours in attacking unnecessarily disadvantageous lands.

The proposal is that this waste shall go on year after year in time of peace, in the hope of being in a better position in time of war. First we see, then, what England will have to pay.

But apart from that we must not forget the disturbance in distribution of goods by the home-growing corn increasing in price and thus transferring some of the produce of industry from the masses to the landlords and farmers.

Now, consider what England is going to get.

In the first place, assume that the war is not with the United States of America, from whom we get our greatest foreign supply, and that some other European countries are en-



deavouring to stop the corn-carrying ships. Which is easier—for England to protect her shipping from Canada to England, or for England plus the United States to protect their shipping from the United States to England? I should have thought the latter by far the better prospect.

But, now, suppose that the war is with the United States of America. Suppose that no corn can be shipped from the United States to England direct. Follow the result :

- (1) Corn would be dear in England.
- (2) Every corn merchant in Europe would like to sell England corn.
- (3) All over Europe England would be buying corn.
- (4) All corn merchants in Europe would buy corn from the United States of America.
- (5) England would buy the same corn, only she would have to pay additional cost of getting it through other channels. This cost would only be the extra, necessary to induce business with the foreign merchants, because it would be a paying game for them, and they would all be in competition with one another to do the trade. A French ship would fetch corn from the United States for France, but nothing in the wide world would prevent that ship from landing its corn in England.

Suppose the United States, in order to starve England, inflicted on itself the terrible loss of refusing to sell corn to anybody. This is very unlikely, but even then England would be buying all over the world, and the cost in England would be no higher, or not much higher, than in all other corn-importing countries.

Compare these results with the frightful waste which this preferential tariff would inflict on England.

#### ANOTHER FEATURE.

It would also be observed that this preference to Canada involves, not only that corn, other than home and colonial, must be taxed if imported into England: but further steps must be taken to prevent any importation of corn into Canada. Otherwise the course of events will be as follows :

A corn merchant in Canada will buy from the United States cheaper than he can buy home-grown corn in Canada, and sell that in England. In this event the whole basis of the scheme breaks down, and the only effect will be to inflict on England a loss, in order that a few corn merchants in Canada may make a

romping profit. The waste, therefore, will be increased by the expense of hosts of Inland Revenue Authorities, to prevent the landing here of corn, as being grown in Canada, when it was really grown somewhere else, and to prevent foreign corn from being imported into Canada.

The above observation is rendered more forcible when it is borne in mind that Canada is often frozen in in the winter, and will have to, as she does now, export through the United States of America.

9. Another startling proposition is that by Protection wages will be raised.

(1) There is no evidence to support this.

(2) There is evidence to the contrary. The evidence as to wages in other countries, comparable with England, where Protection is in full force, shows that wages there are very substantially lower.

(3) Common-sense shows that the proposition cannot be true. The trade of a nation is the result of merchants and others seeking to enrich themselves, and with themselves the whole community. To stop the trade, or to drive it out of the best-paying channels, where merchants have arranged it, must therefore make the output of industry of the

nation smaller. If the output is smaller, how can the work-people get a larger share?

10. Another proposition of the Protectionist is: That by taxing corn the cost of living need not go up, because the Government can remit taxes on other articles of food.

Of course, one tax can be put on, and another to like amount be taken off; but how can the Government return to us the dead loss in the payment to Canada? It is like robbing a man and then telling him not to mind, because you will allow him to repay himself the amount out of his own pocket.

11. A recent pretext for Protection is that England is living on her capital by exporting coal and iron.

Here, as usual, the Protectionist does not make a definite proposition. We have to guess at his proposition. Guessing, I understand it to be:

That because England buys things from foreigners she is using up her coal and iron, and that therefore she should refuse to buy things from foreigners.

It is true in the case of every country which is mining and quarrying that it is using up its land. When all its minerals are gone, it must get its living without them or die.

The only question can be: Shall the nation

use its minerals, or leave its minerals for its posterity to use?

If England is to leave its minerals to posterity to use, the natural proceeding would be to pass a law prohibiting coal or iron from being mined, or only to a certain extent. To make this a question of Protection is back-handed and illogical.

It is true that if we refused to import we should to that extent either (*a*) decrease our export, or (*b*) decrease our carrying trade, or (*c*) partly one and partly the other. And it might be that, in the decrease of our exports, coal and iron would not be so largely exported.

But the Protectionist does not want to decrease the exports. He only wants to decrease the imports. Where, then, is his argument? It is difficult to find out what he means by dragging this in as an argument for Protection.

If we have to discuss whether a nation should or should not have recourse to its minerals, quite a different set of questions come in for consideration. The minerals are of no use under the ground. They can be got, used, and consumed (the consumption being rapid or slow according to the nature thereof), once only.

To what extent will the people of to-day lock up these minerals for the future?

This same question existed 1,000 years ago. People mined then, but we are still alive to-day.

Is it possible that people will flourish 1,000 years hence in spite of all our ravages? It is even possible that they may never want these minerals.

Are we to make the sacrifice to-day, or leave the future to take care of itself?

If the sacrifice is to be made, to what extent? If England's coal at the present rate of exhaustion will play out in 100 years, are we to make it last 150, or 200, or 250?

Multitudes of questions may arise on this subject, but they are all foreign to the matter of Protection, and should be answered in the same way, Protection or no Protection.

Lastly, it should be observed that the exhaustion of Nature by mining is not peculiar: it is only part of a common phenomenon. Agricultural land in America is rapidly losing its fertility by the attack which is being made on it. Apart from that, plants and animals from time to time are attacked to depletion; whales are disappearing; seals have diminished in number. In multitudes of directions Nature's supplies are being exhausted.

12. The Right Hon. Mr. Arthur Balfour has recently published his notes on 'Insular Free Trade.' It contains so many fundamental errors, apart from misstatement of fact, that it would require a separate treatise to deal with all of them in detail; but generally he admits the enormous progress of England's trade under Free Trade as an accomplished fact, and asserts that so far England's trade has been highly satisfactory in result. But he expresses an alarm lest all other countries should learn to manufacture for themselves, and refuse to purchase England's goods, in which event he thinks England would not be able to get any imports. He draws an imaginary picture of an island dependent for its food-supply on foreigners, and unable to get its food-supply because foreigners will not take any of its goods.

He suggests that such an island would die, and he suggests that if that island adopted a Protectionist policy it would be better off.

Now, it is very obvious that such an island would die whether it adopted a policy of Free Trade or of Protection, but if it adopted the latter it would die sooner.

The alarm lest the world should refuse the benefit of England's labour is unwarrantable, and the idea almost unthinkable. The citizens

of a country may, either because they no longer need it, or consequent on a disability inflicted on them by their Government, cease to purchase this or that from outside nations. But immediately thereupon the citizens of that country will, in their own interest—and experience shows that they do—apply for and take the benefit of the labour of outside nations in some other direction. There is no limit or finality to the directions of labour. The idea of a nation being willing to work for foreigners, and the foreigners being unwilling to take the benefit of their labour at all, is unthinkable.

The form in which a nation works for other nations is generally by importing raw material, making up and exporting, and by the carrying trade.

But whatever may be the future eccentricities of humanity, if in the future a nation's labour is not to be employed for any purpose outside its own shores, one thing is certain—that England cannot stop that by refusing to import.

Mr. Balfour suggests that perhaps if England threatened other nations with retaliating taxes they might take off these hindrances to trade. It is no part of a work on economy to make guesses as to this. I cannot tell what other nations might do, but the experience of all

Protectionist nations appears to tend in the opposite direction.

13. Mr. Chamberlain's theory, as expounded by his speech on October 6, 1903, just before the issue of this book, is : That as other nations develop industry apart from agriculture, so they cease to want England's services, and that by taxing imports from nations other than her colonies England might induce the colonies to undertake not to develop industries other than agriculture.

This, again, is based on the unthinkable idea that England's labour can become useless to the world.

Whether or not the colonies will fall in with any such view is apart from this work. The reader can make his own guess in that.

FINALLY.—A nation's assets consist of its soil and the labour of its citizens. With those it must live. With those it can enter the world's market and get things in exchange.

It is the interest of the rest of humanity to take advantage of such soil and such labour, and to give a fair exchange. A foreign Government may hamper its citizens by distorting the natural and best flow of exchanges, thereby inflicting a certain loss on its own citizens and a possible loss on others. But it cannot prevent its citizens from continuing to

exchange. These conclusions are the results of application of learning. But they are not that only. All experience supports them.

A great example is found in the shipping of the world. The United States of America refuse to take manufactured goods from foreigners, but immediately its citizens take the labour in another direction. American shipping trade goes down, and that of other countries—especially that of England—goes up.

Putting money aside, the conclusion is so obvious. An American is not so obliging as to give the foreigner his labour for nothing.

Years ago, when even greater ignorance prevailed amongst the crowd on this science than exists to-day, people thought that money—gold—would flow from one country to the other, and it was supposed to be a terrible calamity to the country from which it was flowing.

To-day all that is exploded. The facts show that money does not so flow. It is now known that money is only a medium of exchange. It is like the oil to a machine. The exchange operates in the same way as if there was no money.

Trade is an exchange of labour for labour, whether we consider that permeating a village, a country, a whole nation, or the whole world.

The more any unit can get from the others, and the less it parts with in exchange, the richer it becomes.

These results being recognised, Protection is a fallacy.

#### PROTECTION ACCOUNTED FOR.

One of the commonest things said by a Protectionist is that the practice of protecting one's own industries must be advantageous, because so many countries adopt it. Nothing can be more unfair than that argument, and generally when you find a man using it he knows nothing or little of the subject himself.

The first explanation of Protection being adopted generally is to be found in the colossal ignorance commonly prevailing on the subject. Generally speaking, one would consider it impertinent to assume, much less allege, that most people are ignorant on a given subject, but it is not impertinent in this instance, as it is so obviously true.

It is only necessary to look at Mr. Seddon, who has been referred to before in this book. Unbounded ignorance is the only expression capable of being used towards him. Now, observe he is the Chief Magistrate of a colony.

But there are plenty of Seddons in England who do not give themselves away so much, but who make speeches from time to time in the House of Lords, House of Commons, and elsewhere.

Generally, in my walk through life, I come across very few men who have read any books on political economy, and who know the elementary basis of the science. So much is this so that I cannot generally argue the subject with them, because there is no common platform on which to start. It is like arguing as to the movements of planets with a man who proceeds on the basis that the world is flat, and the sun goes round the world, and who never heard of the Law of Gravity.

The second cause is that the circumstances are such that a man not versed in the matter would naturally be led to a wrong conclusion. Just as, 400 or 500 years ago, a man would have said that the sun went round the world, and would have insisted on it, declaring that he saw it come up every day on one side, and go down on the other. It is so easy and so natural in economics for a man to mistake his own interest for that of the community at large. In trade the increase of a man's profits may be due to (a) increased output of industry owing to improvements, new trade connections, and ex-

tensions, or other matters, or (*b*) change in the distribution of the wealth produced by one man being able to charge another a higher price.

In the first case the nation is richer. In the second one man is richer, while other members of the community are correspondingly poorer. It is so easy for a man who has not studied the subject to treat these as the same.

The common picture which is so often seen is one Englishman wanting Protection, so that he may charge another Englishman a better price.

The views of these Protectionists have frequently an unfortunate self-interest at the bottom of them, so that it wants a great deal to convince them of error.

It is also so natural for a man to see the superficial and fail to see the ultimate results of an operation.

Let us take the farming industry first. We have seen that rents, over and above the normal return for capital, are an unearned increment going to the landlord; that they are a diverting of the services of labour, which otherwise would have been for the benefit of the community, to the service of the landlords; and that the quantum going to the landlords continually augments, as the nation has to resort to further, less accessible, and less fertile lands on the

margin of cultivation. We have seen that the margin of cultivation, owing to improved communication and foreign trade, has been brought back by drawing supplies from the United States and elsewhere. We can now see that, if a fine or tax is imposed on foreign corn coming into this country, it has the same effect as if those countries were less fertile, and the cost of growing corn there to the extent of the tax more expensive; that the price of such corn in England will rise to the extent of the tax; that thereupon the price of all corn *grown* in England can rise to the extent of the tax; so that the community pay the tax through the increased price on imported corn, which goes into the national Exchequer, and also the amount of the tax on home corn, which goes into the pockets of the farmers, and through them to the landlords, who can then put up their rents.

We can now see that this is merely a transfer of the benefit of so much labour from the community to the landlords and farmers, and not an increasing of wealth at all.

But you find that generally landlords and all their class and political friends are wishing for protection against imported corn, and believe that the nation would be richer because *they* get more rent.

Now to deal with a tax on imported articles. In the first place it should be observed that a tax on imported articles, which are not produced in and do not compete with articles produced in the country, is not and cannot be a protective tax. With such taxes I am not, therefore, dealing.

I have explained before in this work that the great force by which the increased wealth of a growing community spreads in part over the whole community, instead of remaining for ever the advantage of the capitalists, is the competition amongst the capitalists, and that it is the constant interest and effort of capitalists to avoid competition amongst themselves. Now, protection against the importation from abroad of a class of goods which is being made in England will save the capitalists to a large extent from competition, and will even enable them to make a ring. Hence manufacturers making for the home market are generally found advocating Protection. They believe that if they can get a better price the community will be richer, but, as we can now see, all the other members of the community will be poorer.

Then, again, there is the appeal to the superficial. To a workman it appears that the

importation of goods has lessened the demand for labour. He so easily overlooks the fact that the importation of goods is payment for goods exported or services rendered to the foreigners; and that, if the goods were not imported, the workmen who make the exported goods and render the services to the foreigner would be thrown out of work, and would crowd the labour market.

The explanation of Protection being so generally adopted is to be found in (1) ignorance or misconception, and (2) self-interest.

A country does not become a Free Trade nation until it is taught.

With men like Mr. Seddon a country cannot get out of the old misconception. England had the advantage of great champions half a century ago. What has to be done is, (1) to teach, (2) to agitate and remove monopoly and vested interest. These champions of their day did that for England.

Protection is not a weapon against the foreigner. It is always pictured as such, so as to get popular support. It is a weapon for the upper classes against the lower.



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